



**ROLE OF COMMERCIAL BANKS IN THE
DEVELOPMENT OF SMALL SCALE
INDUSTRIES IN KAMRUP**

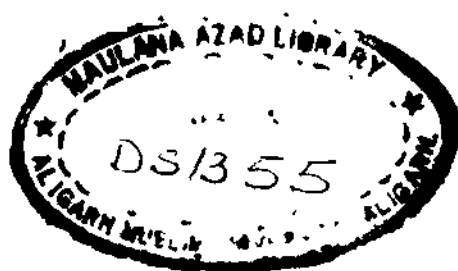
Dissertation Submitted for the Degree of
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IN
ECONOMICS

BY
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TO WHOM IT MAY CONCERN

This is to certify that Ms. Fareeda Shaheen Rasul has worked for her M.Phil dissertation under my supervision on the topic Role of Commercial Banks in the Development of Small Scale Industries in Kamrup. The work is original and worthy to be submitted for the award of M.Phil degree in Economics.

A handwritten signature in dark ink, appearing to read 'A.A. Siddiqi'.

Prof. A.A. Siddiqi
Supervisor

C O N T E N T S

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(FAREEDA SHAHEEN RASUL)

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I N T R O D U C T I O N

Assam, one of the seven sisters of the North-Eastern Region of India is endowed with vast mineral, natural resources and power potentialities for perspective industrialisation and growth.¹ But the pace of industrialisation is not satisfactory due to the geographical location and difficult communication system of the region, which has made it industrially backward but converted it into a traders paradise. Kamrup, is also backward industrially though it has a high potential for the development of resource-based and demand -based industries.² In order to utilise and exploit the vast resources available for industrial development the industries department has been catering to the fulfillment of various objectives, with a special emphasis on small scale industries.³

For the promotion of various industrial activities the district has several government and semi government agencies like National Productivity Council (NPC), Small Industries Service Institute (SISI); National Small Industries Extension Training Institute (NSIET), National Small Scale Industries

1. Report on Industrial Potential Survey of Kamrup District, National Productivity Council. Zoo Narangi Road. Guwahati -24 p.1

2. Dhar Pranab Kumar, The Economy of Assam 1987. Ashoni Prakashani p.98.

3. National Productivity Council, op cit, pages 1,2.

Corporation (NSIC); North Eastern Industrial Technical Consultancy Organisation (NEITCO); North Eastern Regional Agricultural marketing Corporation Ltd. (NERAMAC); Assam Industrial Development Corporation (AIDC) and Assam Small Industries Development Corporation Limited (ASIDC) etc. These agencies render great help to the entrepreneurs and co-operate in many ways in the development of industrial atmosphere in the district.

Due to the rapid increase in the number of small scale industrial units, there is a great demand for more industrial accommodation. At present, there are two industrial estates in Guwahati, one in Bamunimaidan and the other at Bonda. In the industrial estate of Bamunimaidan there are 64 nos of readymade factory sheds covering an area of 19.66 acres while the Bonda industrial estate has 17 Nos of Factory sheds which have already been constructed and allotted to the units. Kamrup district has two industrial area, at Bamunimaidan and Rani; two Commercial estate at Boko and North Guwahati and one and only growth centre at Kalapahar in 40 bighas of land. There is a proposal for the allotment of land under lease to small scale industrial units within this growth centre, which is under consideration and measures for it will be taken up accordingly.¹

1. Action Plan 1988-89 to 1992-93, District Productivity Centre, Kamrup, Guwahati - 24 pages 29, 30, 51.

Small Scale Industries occupy a significant place in the industrial set up of a country and form an integral part of the Indian economic structure. They are not a static part of the economy but a progressive and effective decentralised sector having close relation with agriculture on the one hand and large scale industry on the other.¹ An important element in the National development strategy is the promotion of small scale industries because of its favourable capital-output ratio, high employment potential and contribution to National Income.

The most important feature of our planned economic development is the role played by small scale industries for the fulfilment of socio-economic objectives. This has found expression not only in successive five year plans but also in industrial policy announcements from time to time. The importance of this sector is re-emphasised further by being included in the new 20-point Programme which lays emphasis on giving all facilities for its growth and updating of technology.

The definitions of small Scale Industries have been modified from time to time . The latest definition is as follows :

1. Kuchhal S.C., The Industrial Economy of India, 1961, Chaitanya Publishing House, Allahabad p.206.

Small Scale Industries:

Undertakings having investment in fixed assets in plant and machinery whether held on ownership terms or by lease or by hire- purchase not exceeding Rs. 35 lakhs.

Ancillary Industries.

Undertakings having investment in fixed assets in plant and machinery not exceeding Rs. 45 lakhs and engaged in:- the manufacture of parts, components, sub-assemblies, toolings or intermediates, or the rendering of services, and supplying or rendering or proposing to supply or render 50 per cent of their production on the total services as the case may be to other units for production of other articles.

Tiny Units

Undertakings having investment in fixed assets in plant and machinery not exceeding Rs.2 lakhs.

Small Scale Service Establishments

Establishments / enterprises engaged in personal or household services in rural areas and towns with population of 5 lakh or less and having investment in plant and machinery not exceeding Rs.2 lakhs.¹

1. Facilities for Development of Small Scale Industries.
Development Commissioner, Small Scale Industries, Ministry of Industry, Nirman Bhawan, New Delhi-11, July 1986, p.1.

Objective of the Study

The objective is to study the role of Commercial Banks in the development of small scale industries in Kamrup . The district of Kamrup has the highest concentration about 30 % of the industries of the State, situated in and around Guwahati due to the availability of various infrastructural facilities.

The entire state is now in the developing stage. Self sufficiency in respect of meeting the entire demand of the state is still far reaching . But the growth rate of various industries have thrown light of optimism and if the trend continues, self-sufficiency like other developing states is not far off.

Though banking facilities have increased, its response to small scale industries sector is poor. Excluding Commercial banks, Industrial Development Bank of India (IDBI); Industrial Finance Corporation of India (IFCI); and Assam Financial Corporation (AFC) located in Guwahati city are yet to extend generous financial aid to revitalise the deficiencies arising out of inadequate finance given by commercial banks of the district. Alternate sources of finance are financial institutions like Krishna Credit Co , Purbanchal Syndicate Industrial Finance and Management Service in the Private Sector, the Assam Co-operative Apex Bank, Industrial Co-operative Bank ; City Co-operative Bank, Co-operative Urban Bank, Audit Credit and Financial Agency. Yet institutions are

to come up for industrial banking facilities like national banks which will be a great booster.¹

Scope and Methodology

The study is confined to Commercial Bank loans to Small Scale Industries in Kamrup. Most of the Commercial banks do not like to reveal the loans that have been extended by them to various small scale industries. They feel that their data should be kept confidential and the matter should only be between them and their customer.

A great deal of difficulty has been faced in the study due to absence of maintenance of proper records by the units as well as by Government departments. Locating the unit itself has become a herculean task in the absence of adequate information available with the Government departments. It is essential that an up-to-date list of small industrial units operating in the district should be maintained by the District Industries Centre, with detailed information about their location, production, capital and employment. All measures should be taken to eliminate the closed units from the

1. Action Plan 1988-89 to 1992-93, District Productivity Centre, Kamrup, Ambikagiri Nagar Pages 25, 26, 51, 71.

list and include the new entrants to the field from time to time. Measures of assisting the small scale industries can be successful only if the Government officers are aware of their present position.

Besides, it should be made obligatory on the part of small industries to submit regular return of their progress every year, which should be verified by the industries officers through visits to the concerned units. Industrial units should maintain detailed costing accounts for different items of production during different years, which will give them an incentive for improvement in performance. Industrial units have a wealth of data collected at their disposal, but they seldom publish it in any meaningful form. It is difficult to wade through the mass of material and arrive at definite results. Despite these limitations, several small scale industries were approached for the purpose of survey work.

Most of the small scale industrial units of Kamrup are situated in and around Guwahati subdivision, so industries from this area have been taken into consideration for survey work purpose. The Banking side of the data has been taken mainly from United Commercial Bank which is the lead bank of Kamrup district and North Eastern Institute of Bank Management (NEIBM).

The methodology applied for surveying the small scale industrial units is through a questionnaire by the method of interview i.e; by personally going to the industrial site and noting down the replies in the ^{presence of the} small industrialist. The industrial units that were surveyed have been divided on the basis of successful and Unsuccessful industries, selection of industries in each category being done by purposive sampling ie, according to convenience. The conclusion have been drawn with the help of data taken from secondary sources mainly from the Lead Bank Office Kamrup, Guwahati, North Eastern Institute of Bank Management (NEIBM); National Productivity Councils' Report on Industrial Potential Survey of Kamrup District and District Productivity Centres' Action . Plan 1988-89 to 1992-93. Other sources are too numerous to be mentioned here. Due acknowledgements have been given to them at appropriate places. Simple statistical techniques have been used to process the data.

Plan of the Study:

The plan of the study is as follows :

Chapter I discusses the geographical description and district profile of Kamrup, extent of development of banking institutions in Kamrup , principal small scale industries in Kamrup

as figuring in the survey undertaken and Government policy towards the development of small scale industries. Chapter 2 discusses the principal banks engaged in lending small scale industries, policy towards small scale industries, methods of financing small scale units, lending procedure and recovery of loans advanced. Chapter 3 discusses the principal problems faced by small scale industries, proportion of finance obtained from bank and non-banking institutions, policy towards financing fixed and working capital, deficiencies in lending by banks and importance of non-banking institutions in financing small industries. Chapter 4 discusses the results of the survey undertaken on various types of small scale industrial units. Finally, Chapter 5 gives the main conclusion and suggestions of the study.

KAMRUP

AREA OF INDUSTRIAL LOCATION AND
PROPOSED AREA FOR
DEVELOPMENT.

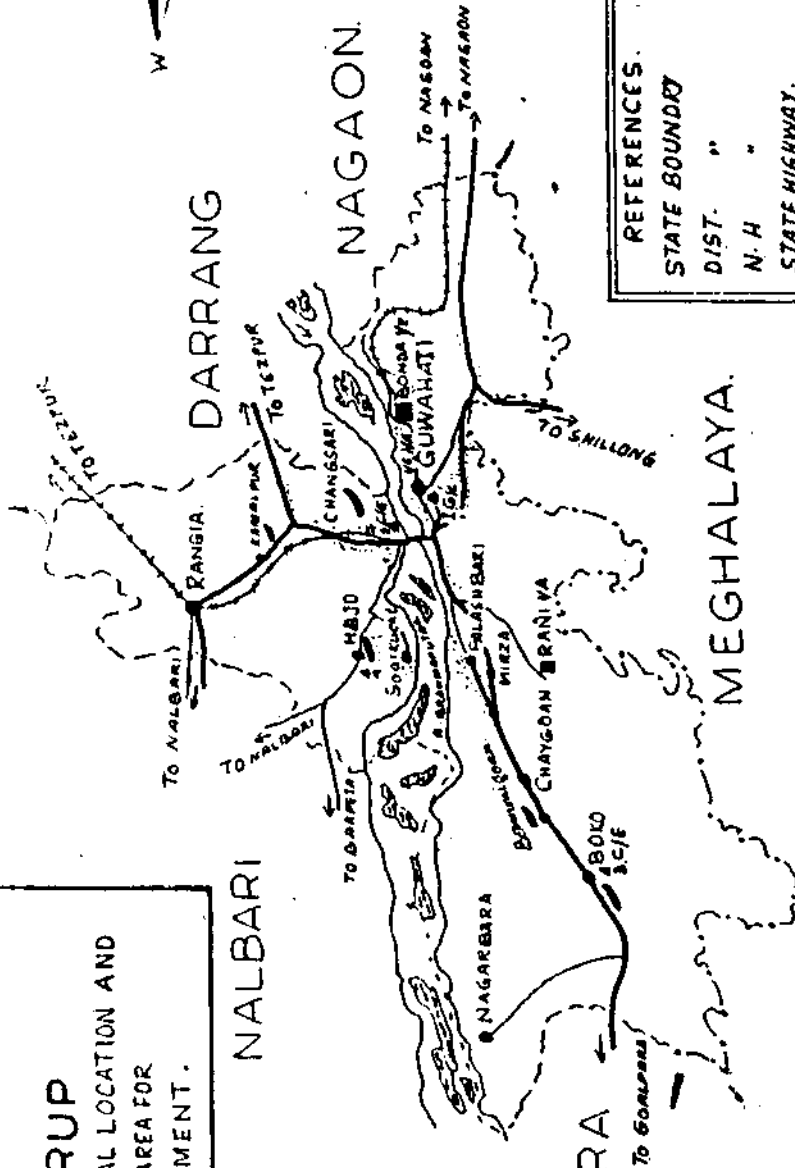
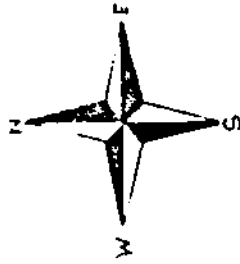
NALBARI

DARRANG

NAGAON

GOALPARA

MEGHALAYA



REFERENCES.

STATE BOUNDARY

DIST. "

N. H. "

STATE HIGHWAY.

PROPOSED AREA FOR DEVELOP-

MENT.

COMPOSITE RAIL LINE

METER GAUGE

CONCENTRATION ZONE FOR

EXISTING INDUSTRIES

1. GROWTH CENTRE at GUWAHATI - KALAPAHAR
2. Comm. Estate at N. GUWAHATI AND BORO
3. INDUSTRIAL ESTATE - BAMUNIMATH - DAN & BONGA

- A. INDUSTRIAL AREA - BAMUNIMATHAN & RANI.
- B. COMMON FACILITIES CENTRE - HAJJO (BRASS METAL)
- C. CITY - KALAPAHAR
- D. COTTAGE INDUSTRIES MUSEUM AND HANDICRAFT DESIGN CENTRE AT AMBARI GUWAHATI

PKS 8/88

CHAPTER - I

Assam the most notable state of the North-Eastern region in India comprises of 18 districts like Kamrup, Barpeta, Goalpara, Kokrajar, Nalbari, Sonitpur, Darrang, Nowgong, Karbi Anglong, Jorhat, Golaghat, Sibsagar, Dibrugarh, Lakhimpur, Dhubri, Karimganj, Cachar and North Cachar Hills.

1.1 Kamrup District : Geographical Description and District Profile :

The present district of Kamrup was reorganised on 28th February 1984, which falls between latitudes $25^{\circ} 43'$ North and $26^{\circ} 51'$ North and between longitudes $90^{\circ} 36'$ East.. and $92^{\circ} 12'$ East, It is bounded by Bhutan on the north, partly by Meghalaya and Goalpara district on the south, by Darrang, Pragjyotishpur and Nagaon districts on the east and by Nalbari district on the west . The river Brahmaputra which meanders through the district divides it into two major portions Guwahati sub-division on the southern bank and Rangia. sub-division and a small portion of Guwahati sub-division on the northern bank.

Kamrup district has two sub-divisions, Guwahati and Rangia. The district head is the Deputy Commissioner with its headquarters at Guwahati which is 5 kms away from the present State Capital, Dispur. The district has a total area

of 4660 sq km with 10 C.D Blocks, 1299 inhabited villages, 113 uninhabited villages and 9 towns out of which 3 are under Guwahati Municipal Corporation, 2 under Municipal Boards, 2 under Town Committees and 2 have not been served by any town committee or board.¹

The district has a widely varied topography like plains, undulating land, alluvial plains and hills of varying degrees. The southern bank of the river Brahmaputra is usually elevated. The hills are a part of the extended Khasi and Jaintia hills varying in height from 100 to 330 metres above mean sea level. Most of the hills are associated with mythological events and are holy places of pilgrimage, the most well known being Nilachal Hill on the top of which stands the famous Kamakhya temple. Other hills are Buragohain Parbat, Gumi Hills, Gobardhan, Kameswar, Siddheswar, Poa Mecca, Hathimora, Madan Kamdev and Gopeswar.²

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1. Report on Industrial Potential Survey of Kamrup District National Productivity Council Hatigarh Chariali, Zoo Narangi Road, Guwahati -24 p-6.
 2. Annual Action Plan of Kamrup District 1987, United Commercial Bank, Divisional Office, Rajgarh Road, Bhangaganh Guwahati-5. p.3.

TABLE - 1.1

Thana and Sub-divisional wise Population of the District is as under (Census of 1971).

<u>Subdivision Thana</u>	<u>Population Total</u>	<u>Male</u>
<u>Guwahati Sub-Division</u>		
1. Boko	1,57,280	81,177
2. Chaygaon	1,07,302	56,071
3. Palashbari	1,41,190	74,618
4. Jalukbari	67,123	37,522
5. Guwahati	2,64,213	1,54,167
6. Kamalpur (Part)	18,594	9,948
<u>Rangia Sub-division</u>		
1. Rangia	1,60,112	84,645
2. Hajo	1,29,996	68,164
3. Kamalpur (Part)	1,25,961	65,612
4. Tamulpur (part)	18,910	9,880

Source : Annual Action Plan of Kamrup District, 1987, U.C.O.
Bank, Divisional Office, Rajgarh Road, Bhangagarh
Guwahati - 781005 Pg-4.

Kamrup district has a density of 283 persons per sq km as per 1971 census . The density of Population in Rangia sub-division is 267 persons while the same in Guwahati sub-division is 249.

The Composition of the population is such that nearly 98.9 % of the population live in rural areas of the district. Density of population in Urban area is 3368 per sq km of the

total urban population, of Guwahati subdivision nearly 58% alone live in Guwahati City.

The sex ratio in terms of Females per 1000 males as per 1971 census is 879 as against the states ratio of 896.

The literacy percentage as per 1971 census was 32.68% . The rate of female literacy was 16.23% and that of male 42.63% only.

1.2 Extent of Development of Banking Institutions in Kamrup :

There are altogether 135 branches of Scheduled Commercial Bank, Co-operative Bank, and land mortgage Bank in the District . Out of 135 branches, 61 branches is in the rural areas and 74 branches in the Greater Guwahati region.¹

Block-wise Position of Bank Branches in Kamrup District

Block	Bank Branch	Location
1	2	3
1. Hajo	1. Pragjotish Gawolia Bank	Bamundia, Sualkuchi, Ramdia, Kulhati, Baramboi

1. Action Plan 1988-89 to 1992.-93, District Productivity Centre, Kamrup Ambikagiri Nagar, Guwahati 781024 Pg. 25.

1	2	3
	2. Purbanchal Bank, C.B.I., Apex Bank.	Sualkuchi
	3. S.B.I.	Dadara
	4. Allahabad Bank	Hajo
2. <u>Rangia</u>	1. U.C.O.	Rangia, Goreswar, Debok.
	2. P.G.B.	Rangia, Dwarkuchi
	3. S.B.I., Apex Bank, U.B.I.	Rangia
	4. Allahabad Bank	Kaurbaha
	5. New Bank of India	Kaniha
	6. C.B.I.	Mahuripara
3. <u>Kerara</u>	1. U.C.O.	Bazera
	2. U.B.I.	Baihata Charali
	3. P.G.B.	Muktapur, Bihdia
4. <u>Kamalpur</u>	1. P.G.B.	Kamalpur, Changchari
	2. S.B.I.	Soneswar
	3. Allahabad Bank	Borka
	4. Bank of India	Abhayapur
	5. Indian Overseas Bank	Amingaon
	6. U.B.I.	North Guwahati
	7. U.C.O.	Amingaon Industrial Estate.

1	2	3
5. <u>Rampur</u>	1. P.N.B.	Rampur, Loharghat
	2. Purbanchal Bank	Mirza.
	3. C.B.I.	Bijohnagar
	4. U.B.I.	Palasbari
	5. P.G.B.	Borihat
6. <u>Dimoria</u>	1. U.C.O.	Sonapur, Dhopguri
	2. S.B.I.	Jorabat, Moloibari
	3. P.G.B.	Digarua
	4. Purbanchal Bank	Khetri
7. <u>Rani</u>	1. Union Bank	Sikarhati
	2. P.G.B.	Borihat, Dharapur
	3. S.B.I.	Airport
	4. U.C.O.	Rani
	5. Purbanchal Bank	Azara
8. <u>Chaygaon</u>	1. U.B.I.	Chaygaon
9. <u>Boko-Bongaon</u>	1. Allahabad Bank	Hakim Bazar
	2. C.B.I.	Bongaon
	3. S.B.I.	Luko
	4. U.B.I.	Boko.
	5. U.C.O.	Bamunigaon Bazar
10. <u>Chamoria</u>	1. U.C.O.	Chamaria Satra
	2. Purbanchal Bank	Nagarbeta

Source : Report on Industrial Potential Survey of Kamrup District
national productivity Council Hatigarh Chariali,
 Zoo Narangi Road, Guwahati 781024. Pg. 17, 18.

The greater Guwahati is having 74 bank branches -the S.B.I. has 15 branches, U.B.I. has 10, U.C.D. Bank has 7, Purbanchal Bank has 9 and many other banks have their branches. Consequent upon the rapid expansion in banking facilities, the volume of deposits with deployment of credit by scheduled commercial banks also increased.

In spite of increased banking facilities the response to the small scale sector by the banks are poor due to many reasons. Some constraints like inordinate delays due to shortage of manpower, lack of loan sanctioning authority, lack of information flow and monitoring of activities etc. in clearing the proposals are reported. Some bank branches also do not have experts to vent proposals of small scale industries.

1) Industrial Development Bank of India (IDBI) :

The IDBI office located at Guwahati extends financial assistance to industrial projects directly under its Direct Finance Schemes and indirectly through the State-level Institutions and Commercial Banks under its refinance and Bills rediscounting schemes. IDBI also extends equity type of assistance to industrial units. Creation of the small industries development fund is a significant development recently made.

2) Industrial Finance Corporation of India (IFCI)

The IFCI has a branch at Guwahati, aiming to provide medium and long term finance to eligible industrial concerns through promotional activities and project financing operations.

3) Assam Financial Corporation (AFC) :

Financial assistance by A.F.C. has moulded many industries in this region . It is the major non-banking sector which finance industries and co-ordinate with all the major development agencies. .

There are many other financial institutions like Krishna Credit Co. Ltd., Ganeshguri, Purbanchal Syndicate, G.S.Road, Industrial Finance and Management Service Pvt.Ltd. Dighalipukhuri, the Assam Apex Bank Co.Op. Ltd., Panbazar, Sanchayita Investment, Maligaon Chariali, Urban-Co-op Bank, Silpukhuri, Aditya Credit and Financing Agency , Bamunimaidan etc. which are alternate sources of finance.¹

1.3 Principal Small Scale Industries in Kamrup :

The district Kamrup has the highest concentration of industries, about 27% of the industries in the State .The total number of factories registered under Factories Act has risen from 416 on 1985 to 436 in 1986.

The largest concentration of small scale industries is in and around Guwahati because of the availability of the various infrastructural facilities.Sualkuchi, Amingaon, Rangia etc. have some concentration but in rural areas not much of industries exist. except a few saw mills and rice mills.²

1- Report on Industrial Potential Survey of Kamrup District, National Productivity Council pg 20, 21.

2.Ibid, op.cit, p.51.

There are as many as 1500 small scale units in Kamrup district upto 1984-85 which have been registered under the Directorate of Industries, Government of Assam. Out of these only 385 units are registered under the Factories Act. Since the number of industries so far registered is a large one, it is not possible to mention each and every industry. So types of industrial units figuring in the survey and their number are mentioned in the table below :

Table 1.2 :

Small Scale Industries registered under the Directorate of Industries Government of Assam, figuring in the Survey.

<u>Item Produced</u>	<u>Number of Industrial Units</u>
Wooden Furniture	82
Candle Mfg.	76
Processing of Food Products	35
Steel fabrication	31
Wire netting	21
Steel Structural	12
Metal Sheets	10
Chemicals	8
Canvas Cloth, tent etc.	8
Ayurvedic Medicine	7
Metal Moulding	3
Electrical goods	3
Cane and Bamboo Sofa	
Set and others	3
Metal Castings	2
Tarpaulin	2
F.S.Hat, Haver Sack, Kit Bag	1

Source :

Directory of Small Scale Industries Assam, 1984-85,
Publication of Directorate of Industries Government
of Assam Pg. 1-83.

Table 1.2 shows the type and number of industrial units figuring in the survey and are registered under the Directorate of Industries, Government of Assam. A survey had been undertaken to know about the development of different small scale industrial units of Kamrup district that has been aided financially by commercial banks and other non-banking institution. The total number & type of surveyed industries are mentioned in the above table.

Name of Industries Surveyed :

- 1) Assam Canvas Craft Industry
- 2) Pathak Chemical Industry
- 3) Barua Industries
- 4) Ferrodyne Engineering
- 5) Nilgiri Enterprises
- 6) Pheros & Co. (Assam Pvt. Ltd.)
- 7) Modern Metal Moulders (Assam) Ltd.
- 8) Rika Engineering Products
- 9) Sasi Ayurvedic Bhawan
- 10) Purbanchal Chemical Pvt.Ltd.

1.4 Government Policy towards the development of Small Scale Industries :

The existing industrial policy and incentive schemes which became operative in 1982, had been considered necessary to be reviewed and revised keeping in view the priorities the present Government of Assam has attached on speedy industrial development of the State as well as generation of adequate employment opportunities through self-employment in the industrial sector.

The new Industrial Policy has been formulated so that the aspirations of the people are met genuinely within a time frame through economic and industrial development of the State and by the removal of the distortions of development in the past. The aims of the new policy, are the encouragement of growth and promotion of all the industries which are based on local resources, local demands, local scarcity condition and local environment.

Therefore, the Government of Assam resolved that steps would be taken :

- 1) Throughout the state, balanced regional development is to be ensured on the basis of techno-economic potential surveys and rapid promotion of a host of industries like khadi and village, artisan, tiny, small and ancilliary industries.

- 2) On a highpriority basis effective steps are to be taken for the creation of a suitable environment for development of basic infrastructures such as the development of transport and communication facilities, power, industrial areas, Industrial Estate, Commercial Estates etc.
- 3) Ensurement for the proper development of local skills and entrepreneurship at district, sub- division and block level through training programmes, intensive publicity and motivation.
- 4) Making available the State Incentive Schemes for the small sector solely to promote and protect the interests of the local people and by stipulating that, for being eligible to avail the benefits under the scheme, there should be hundred percent (100 %) employment of local people in the small sector.
- 5) Encouragement of the traditional artisan and handicraft sector covering items like cane and bamboo products, brass and bell metal, ivory works etc. by the provision of common facilities service centres, raw- materials , marketing, technical and other supports, as per requirement from time to time.
- 6) For the ensurement of viable growth and for the provision of positive guidance to local entrepreneurs, a data bank is build up at the Directorate of Industries and at A.I.D.C. with a shelf of specific project profiles and other vital information. For the local SSI units, for ensuring adequate marketing support, the existing rules of the A.P.S.P. would be replaced by an Act.

7) For Industrial purpose to ensure un-interrupted supply of electricity, and till the power situation stabilises to encourage industries in setting up captive units, high priority is given to power generation.

8) For the small sector, at each District Industries Centre, there is to be a provision for a single window clearance agency called "Udyog Sahayaka".

9) The misuse of scarce Government land allotted for industrial purpose should be stopped by ensuring that proposals for all such land are routed through the Industries Department with definite recommendations. Specific provisions would be incorporated in the allotment orders to the effect that if the land is not used for the purpose allotted for, but something else, then within a period of three years, such land would revert to the Government at the cost of the allottees.

10) Through proper identification and provision of comprehensive package of assistance revival of viable sick units are provided for. Steps are also taken up to avoid sickness in new units by periodical and regular monitoring and guidance of new units.

With such a policy frame work, Government is pleased to direct that the scheme of Incentives as announced under

Government notification No. M.I. 132/82 dated 12th October 1982 shall be revised with effect from 1.1.87 as indicated below :

Criteria For Eligibility :

- 1) The new package of incentives referred to as 1986 'Incentives Scheme' shall continue for the period from 1.1.87 to March 31st 1990 or for such time as the government may deem it fit. At any time, government may make any amendments to the scheme by giving due notice but the commitments already made shall not be adversely effected by any such amendment.
- 2) The effective date for the 1986 Incentives Scheme is 1-1-87 from this date the Industrial Policy Resolution of 1982 and other relevant policy Resolutions will cease to be operative except when they are otherwise provided for.
- 3) Industries continuing i.e. those which are already availing incentives under the 1982 Scheme or in other words have obtained eligibility Certificates as per the 1982 Scheme with satisfactory conditions will continue to be governed by the 1982 scheme.
- 4) All industries are entitled to assistance by the 1986 scheme except those which are to be notified as non-eligible by the government.

5) Under the Scheme, the Central Public Sector Undertakings are not considered eligible for incentives.

1. Eligible Unit :

For eligibility of incentives under 1986 Scheme, units should be newly set up on or after 1.1.87 or be existing units, undertaking expansion, modernisation or diversification at the same location or any other place in the state of Assam provided that -

1. Under small scale sector should have 100 percent employment of local people.

2. In the state of Assam shall be the location of administrative / registered / controlling offices.

3. New Unit :

For the consideration of a new unit, one or more of the effective steps has to be taken up by an industrial unit on or after 1.1.87.

4. Existing Unit :

An unit will be considered as an existing unit for the purpose of the 1986 scheme, if it is or was in commercial production at any time prior to 1.1.87.

5. Expansion / modernisation/ Diversification:

An existing industrial unit's expansion /modernisation/
Diversi-
fication can be eligible for the incentives if in the expansion /

modernisation / Diversification the total capital invested on plant and machinery is more than 25 percent of the total fixed capital investment of the existing unit-. Of all the capital investments made on land, building, plant and machinery of an existing unit, depreciated book values are taken into consideration for the purpose of calculation.

If the existing unit has already availed itself of incentives it will not disqualify the expansion /modernisation / diversification project to get more incentives for the extra investment made.

6) Sick Unit

A Unit may be declared as sick from time to time by the State Government under the Assam Industries Relief undertaking (Special Provision) Act, 1984 .

7) Effective Steps :

Effective steps are one on more of the following steps mentioned below :

- 1) Capital issued for the industrial unit, more than 60% of it has been paid up.
- 2) Of the factory building a substantial part has been already constructed.
- 3) The plant and machinery required by the industrial unit, a firm order has been placed.

4) Under the Scheme, no unit can claim any right for any incentives merely by fulfilling on its part the conditions of the scheme. Unless the Eligibility. Certificate is issued under the scheme by the Implementing Agency concerned and the unit has fulfilled the stipulations and conditions of eligibility then only the incentives under the scheme can be claimed. .

9) Eligibility Certificate :

For the SSI sector, the eligibility certificate is issued by the Udyog Sahayak of the Directorate of Industries the District Industries Centre.

10) Implementing Agencies :

For the SSI Sector the implementing agency would be the Directorate of Industries.

Incentives :

1) Subsidy on Infrastructure Facilities :

In all districts and sub-divisions all suitable areas of land will first be identified and then be given basically under two categories :

a) Developed land with all the infrastructural facilities like power, water , internal roads etc. It is proposed that

developed land will be allotted for 30 years on a long term lease basis. The State government will subsidise 25% of the cost of development of it for the small sector and the remaining amount can be recovered in 15 equal annual instalments .

b) For the case of B category or under developed land, the cost of it can be recovered in 15 equal ^{annual} instalments. The state Government will give 25 percent subsidy for the development of such land against the total development cost, which has to be incurred by the entrepreneurs in the small scale sector.

2) Allotment of factory sheds to S.S.I. Units :

For newly set up small scale Industrial units, built-up factory sheds will be allotted to them on annual rental basis of which 50% will be subsidised by the State Government for a period of 5 years from the date of commercial production. For this allotment preference will be given to local entrepreneurs.

3) Man Power Development of Local Entrepreneurs :

There is a provision of training fund for the S.S.I. sector admissible only for persons employed in industrial units that have gone into production. Per trainee would get an reimbursement of Rs. 1,000/- and cases where technical training of a higher order is required then reimbursement will be made up to Rs. 2,000 /- per trainee subject in both the cases to ceiling of Rs. 6,000/- per unit. .

If within no Industries District any electronic or industrial unit is set up, then for training the reimbursement would be Rs. 2,500/- and 5,000/- per training respectively in place of 1,000/- and 2,000 /- per trainee and the ceiling would be Rs. 15,000/-

4) Equity participation in the Assisted Sector :

Equity contributions would be participated by the Assam Industrial Development Corporation (A.I.D.C.) upto 10 percent of the issued capital upto a ceiling of 10 lakhs in any project which is viable and cost of the project does not exceed the amount of Rs. 3 crores . Local entrepreneurs would be given preference.

5) Interest Subsidy :

For S.S.I. and sick Industrial Units interest subsidy will be provided on working capital above 8 percent on loans taken from banks and other financial institutions. From the date of commercial production or revival of the unit, this benefit will be provided for the first three years.

6) Exemption of Stamp Duty :

For availing of various incentives and deeds of the state and Central government the tiny and small scale sector will get exemption of stamp duty of 100 percent and 50 percent respectively.

7) Sales Tax Exemption

For the purchase of raw materials and the sale of finished products sales tax will be exempted for a period of five years as decided by the government from time to time.

8) Reduction of Assam Finance tax :

For the encouragement of local manufacturers, the Assam Finance tax is lowered from 12% to 4% so that the manufacturers can compete with products coming from outside the state. This identification will be done by a committee constituted for the purpose.

9) Power Subsidy :

Power subsidy will be granted as per the following rules :

- a) As regarding the small scale sector, for the first five years of commercial production up to 50% power subsidy will be granted but there will be no ceiling to the subsidy amount.
- b) Units having connected load of 2.5 M.W. will get power tariff subsidised to 30% and for units with connected load above 2.5 M.W. will get 25% which will be subject to a ceiling of Rs. 5 lakhs per industrial unit per year. From the date of commercial production this incentive will be given for the first three years.
- c) For small scale units, power actually consumed except that which is used for residential purpose will be subsidised.

d) Power concessions will also be eligible for units undertaking expansion / diversification activities. Of the existing installed capacity an increase of more than 25 would be given for expansion.

10) Subsidy on drawal of power lines :

For the SSI units on drawal of electrical power line, from the main to the factory sheds 50% of the cost of it will be subsidised for each industrial unit upto a ceiling of Rs. 20,000/-

11) Rehabilitation of viable sick industrial units:

The 1986 Incentive Schemes declared for new industrial units will also be made available to revive back viable sick industrial units.

12) Contribution on Feasibility Study Cost:

The cost of feasibility study for small scale unit which is prepared by an agency which is approved by the Directorate will get subsidy upto 100 % of the project cost if it is within Rs 10 within Rs.10 lakhs and will get 90 % subsidy for projects above Rs. 10 lakhs. In each case ceiling of subsidy will be Rs.10,000 /- If the project report is not implemented within its prescribed time it will become the property of the government.

13) Subsidy on Generating Set :

While establishment of the industrial unit, to meet the shortages of electricity by the installation of generator

sets subsidy is provided at the following rates :

- 1) Generating set upto 20 KVA will be given Rs. 1000 per KVA.
- 2) Generating set upto 51 KVA will be given Rs. 850 /- per KVA.
- 3) Generating set above 51 KVA will be given Rs. 700/- per K.V.A.

However, per industrial unit the maximum amount of subsidy will be 1 lakh.

14. Risk Capital formation :

In the small and tiny sector, equity contribution upto Rs. 2 lakhs ceiling will be made by Assam Small Industries Development Corporation Ltd.

15. Special Incentives for industries being set up in no Industries Districts and Electronic Industries :

Special incentives are made available for no Industries Districts and Electronic Industries :

a) Power Subsidy

For the small scale sector, industrial units undertaking expansion and diversification will get power subsidy for the first eight years of 60% of the tariff rate.

b) 100% Subsidy on Feasibility Study :

For SSI units, for the cost of feasibility cum project reports 100% reimbursement would be made.

c) Subsidy on infrastructure facilities :

For the small scale sector, for industries in the NID and for Electronic Industries 35% of the cost would be reimbursed.

d) Subsidy for Drawal of Power line :

For each industrial unit in the small and tiny^{sector} 75% of the cost for drawing electric line from the main line to factory sheds will be subsidised upto a ceiling of Rs.40,000/-¹

Source :

- 1) Industrial Policy of Assam 1986. No. CI. 386 /86.
Dated Dispur, the 24th Dec. 1986. Government of Assam
Department of Industries pages 1-11.

CHAPTER - II2.1 Principal Banks engaged in lending small scale industries in Kamrup District :

Small scale industries are provided finance to meet their various requirements by.

- 1) All nationalised commercial Banks
- 2) Co-operative Apex Banks
- 3) Purbanchal Banks and
- 4) Urban Banks

The details are as follows :

Table - 2.1

Name of the Banks	Number
1. Public Sector Banks	19
2. Regional Rural Bank	2
3. Co -operative Bank	5
4. Private Sector Banks	3
5. State Corporations	2

Source : U.C.O. Bank Divisional Office Rajgarh Road, Bhanagarh.
Guwahati. 5.

Table 2.1 reveals the details of all commercial banks and State Corporation that give financial aid to small scale industries for their development. The number of different types of commercial banks are also given in the table, in order to give us an idea about the principal banks engaged in lending small scale industries.

2.2 Policy towards Small Scale Industries :

It is gratifying that enthusiasm is shown currently by commercial banks for the grant of liberal credit facilities to priority sectors of the economy like small scale industries.¹ A rapid spread of banking facilities can be witnessed during the post nationalisation period . Banks have taken up various measures in order to step up their lending to the small scale industries.² The extension of credit to small scale industries has become one of the principal tasks assigned to banks. Keeping in view the national priority given to the small scale industries as it offers high employment potential, the commercial banks have continued to ensure regular flow of credit to them with concessional rates of interest along with liberated margin norms. The security oriented approach has given way to production oriented lending which is adopted by commercial banks. For the rendering of technical assistance to the entrepreneurs many banks have also set up cells for the purpose.³

1. Shekhar K.C., Banking Theory and Practice, 1982 Vikhas Publications New Delhi, p.91.

2. Report on Currency and Finance, 1984-85 Volume I, Economic Review (Banking Developments) p. 180.

3. India 1982, Research and Reference Division Publications Ministry of Information and Broadcasting Government of India pages 186, 191, 195.

The terms and conditions that govern the loans of commercial banks to small scale industries differ from bank to bank but in matters of rates of interest, margins and retained security demanded concessional terms are offered by all commercial banks. Advances are not sanctioned by commercial banks on a long term basis beyond a small portion of their demand and time liabilities. Whatever advances are granted, is done against securities like goods, shares, government promissory notes, bills etc. Clean advances are also allowed but in very rare cases this is allowed.¹

A considerable headway has been made by commercial banks for the achievement of twin objectives like improvement in banking facilities and the reduction of inter-regional disparities and the significant progress achieved for reaching of targets which have been laid down for priority sector advances.²

Financing of small- scale industries by commercial banks began at first in April 1956, when for the benefit of small scale industries a lead was taken up by the State Bank of India for the operation of a liberalised scheme. It is seen that

1. Khan R.R. , Management of Small Industries , 1979 p.74

2. Economic Review Volume I, op cit .,p150

after nationalisation, commercial banks have taken up active steps in the financing of small scale industries. Various schemes have been adopted by nationalised commercial banks for financing the small scale industries. They are as follows :

1) Liberalised co-ordinated financing schemes :

Many of the commercial banks have followed the State Bank of India (S.B.I.) in devising schemes for financing small scale industries where provisions are made for liberal terms and conditions of loan and a system of co-ordinated finance. The S.B.I. has implemented a scheme for ensuring co-ordinated finance with the assistance of a working group consisting of representatives of State Directors of Industries, the small Industries Service Institute (SISI) Concerned, State Financial Corporation and the Bank Local and Central co-ordination committees were also set up for the same purpose. For loans which were granted in connection with margin requirements, interest rates, start-up period, payment of loan amount, period of loan, securities etc there was the provision of adequate relaxations which are made in view for the accomodation of the various limitations of the small scale units in the fulfilment of the requirements of commercial bank finance. For ensuring the proper use of the loan amount, provisions are also made. Preference is given for the factory type advances (hypothecation) rather than the lock and key form of advances (pledge).

2) Entrepreneurial schemes and schemes for employment

The S.B.I. introduced this scheme in August 1967 after which it was followed by many nationalised banks after their nationalisation. This scheme is applicable for craftsmen, qualified persons, engineering graduates and technocrats who lacked owners equity but who desires setting up of small-scale industries. The maximum limit of the loan differs from bank to bank . For example, for an individual entrepreneur in the S.B.I. it is Rs. 2 lakhs and for more than one individual entrepreneur it is Rs.3 lakhs, whereas in the case of Syndicate Bank for technocrats it is Rs.50,000 and for electronates it is Rs. 2 lakhs. Projects are provided with finance if they are technically feasible and economically viable, confirmed so either by the small Industries Service Institute (SISI), the Director of Industries or the department of the bank concerned as the case may be. Condition for the grant of loans is that till the amount of the loan is repayed no withdrawal should be made from the surpluses . To avoid the unnecessary blockage of funds in the construction of sheds, loans given are particularly used for renting buildings.

For the implementation of various schemes for financing small scale industries, some prominent changes have been brought about in the organisation and management of commercial banks which are as follows:-

- i) Separate cells or divisions, head offices and regional offices have been set up by many banks for financing the small-scale industries. Such cells are also attached with main branches by some banks. The cells are known by different names like Industrial Advance Cell, Small scale Industries Cell, Small Industries Promotion cell, Technical Cell, Credit Information Cell and Social Welfare cell.
- ii) Technical officers and field staff provision is made for various cells, agencies, centres and some big branches for the provision of finance and promotion of small-scale industries.
- iii) For sanctioning of loans to small scale industries at liberalised terms and conditions, officers at the lower echelons are vested with powers. Provisions were made for no rejection of loan applications by the branch manager to avoid personal bias in the rejection of loan applications at the branch level.
- iv) Issue of loan account pass books to borrowers have also been started by some banks in order to ensure discipline in the repayment of loan amount as borrowers are informed about the amount of outstanding debt that has to be paid by them.

Thus, commercial banks have shown favourable response in their efforts of financing small scale industries by devising

various schemes to suit borrowers and by the adjustment of the organisation and management for the implementation of the various scheme.¹

The lead Bank Scheme was introduced by the Reserve Bank of India in December 1969, under which each district is taken up by a particular nationalised bank for the intensive development of banking facilities. Banking facilities are ensured by this scheme to the small entrepreneurs who otherwise lack it to finance their operations.² Under the lead Bank Scheme, nationalised commercial banks are expected to extend full co-operation for developing banking habit, spreading branch offices and promoting development of the lead districts allocated to them for the purpose.³

The lead bank scheme designates each bank as the lead Bank for a district in which it already has sizeable operations. The lead Bank of the district, is expected to survey the district for banking development and extension of credit facilities specially for the benefit of the small scale units. The principal objective of the scheme is the orientation of banking development needs of all regions and all sections which are not met with by the banking system.

Source :-

Agrawal H.N.; A portrait of Nationalised Banks, 1980, Inter -India publication Delhi Pages 202, 207, 210.

2. Khan R.R. op.cit. p. 125

3. Agarwal H.N. op cit. p 256.

A credit survey of each district is prepared by the Lead Bank in order to know the requirements of the district and the way they can be met. At the district, there is also a coordination committee presided by the Deputy Commissioner of the district where the problems of credit flow is discussed. The district industry centres, are sponsoring agencies for many of the applications for financial aid to the lead bank, thus an opportunity is provided through these committees for the review of cases that are turned down by the bank. For three or four districts, an officer has also been appointed to monitor the flow of credit to the decentralised sector and to revive such cases.

The appointment of a credit manager in each district industry centre recently from the lead bank office, has provided a valuable link between the promotional network represented by the District Industries centre and the financing system represented by the lead bank. Though there is the existence of operational difficulties, this method has made the provision of a greater understanding between the two systems and a liberal approach of banks towards applications from rural areas and from the decentralised sector.¹

1. Vepa Ram K. Small Industry the Challenge of the Eighties
Vikhas Publishing House, P. 62-64, Delhi, 1981.

2.3 Methods of Financing small scale Units : Lending Produce

The life blood of any business is finance and the management of it is an art that merits social attention.¹

For the success of any small industries development programme one of the vital elements is credit. With regard to the importance given for the growth and development of small scale industries, it is of prime importance that adequate finance is made available to them timely with reasonable rates of interest. For the effective functioning of the small scale sector it is essential that credit be made available on easy and liberal terms.²

From the view point of a banker, well-established guidelines are present for the assessment of credit requirements of a concern. For assessing the viability of a unit whether it is credit worthy or not, a banker has to make an analysis of the balance sheets and thereby evaluate the turnover of funds, sales and other operating results for a proper judgement of a unit. There are certain established ratios behind which figures a banker has to go in order to assess the technical and managerial competence of the management, and the integrity of the men running a concern for the

1. Desai Wasant, Organisation and management of small scale Industries, 1983. Himalaya Publishing House, p.260.

2. Vepa Ram K. op cit , p.50,

decision whether the unit deserves financial aid or not. The established ratios are debt equity ratio, turnover to net worth, return on capital employed, net profit as a percentage of net worth, dividend paid to shareholders and ratio of current assets to current liabilities.¹

Financing of small scale industries is done within an institutional framework which is as follows :

1) State aid to Industries act which is a statutory provision within the state for small loans to entrepreneurs .The procedure followed for obtaining the loan varies from state to state. Loans below the amount of Rs.5,000 are given on personal surety and for loans above this amount are advanced upto 75 percent of the security offered. In most states, for such loans the ceiling is Rs. 1 lakh for individual borrowers and Rs. 2 lakhs in the case of industrial co-operatives given at a rate of interest of 2 to 7 percent . After the development of banking institutions this method is not applicable now.²

2) Participation in Equity Capital or Risk Capital takes the form of direct subscription or under writings with liability confined upto 25 percent of the total issue with regard to both.

1. Desai Vasant, op.cit., Pages 275, 276.

2. Vepa Ram K, op cit, p.65-67.

3) Credit Guarantee Scheme of the Reserve Bank of India (RBI) is the encouragement^{& enlargement} of the supply of institutional credit to small industrial units by a grant of a degree of protection to lending institutions against possible losses in respect of such advances. This scheme is operated by the R.B.I. on behalf of the Government of India, and under it losses incurred by the lending institutions in respect of advances to small scale industries are covered upto 75 percent by the R.B.I. To avail to the facility financial institutions are to pay a nominal guarantee commission of $\frac{1}{4}$ of 1 percent. Under the scheme financial institutions that are advancing short and long term loans upto a period of 10 years will be able to recoup a substantial amount of the loan advanced by them. For any advance, Rs. 2 lakhs is the maximum amount which can be recovered against the guarantee.¹

4) Seed Capital Assistance is a special class of share capital raised for the provision of assistance to deserving industrial units on soft terms. It is also used for the provision of equity assistance to eligible small scale units covered under the credit guarantee scheme. For getting such assistance projects should be in one of the priority sectors preferably

1. Khan R.R. p. 73.

technical entrepreneurs or craftsmen who do not possess formal academic qualifications but have adequate practical experience or skills in the line of manufacturing they intent to start. Projects located in backward areas where sufficient resources are not available can also get benefits from the seed capital assistance scheme. The maximum assistance given will be 20 percent of the project cost on Rs. 2 lakhs the rate of interest will be a normal rate of 1 percent per annum for proprietary concerns and a dividend rate of 5 to 6 percent will be stipulated. This scheme is operated through the state Financial Corporations.

5) Concessional finance at concessional rates of interest are provided by major financing institutions in backward areas. The concessional rate of interest is 95 percent with reduced commitment charge of 0.5 percent with a initial moratorium period of 5 years and longer amortisation period of 15 to 20 years with participation in risk capital on a selective basis.¹

6) State Financial Corporation advance loans to small -scale entrepreneurs for the setting up of new units or renovation, modernisation and expansion of existing units. Loans are granted for a maximum limit of Rs. 10 lakhs against collateral security with a margin of 25 to 50 percent and with the rate of interest of 7 to 9 percent which varies from state to state.

1. Vepa Ram K, op. cit., Pages 68, 69.

7. Commercial Banks offer credit to the small entrepreneurs on easy terms . Some of the loans are granted for medium term but the bulk of loans given are for the provision of short term credit. The terms and conditions governing the loans to small scale industries by commercial banks differ from bank to bank.

a) Loans : In the case of loan account, disbursement of the entire amount can be done at one time either in cash or by transfer to the account. If the advance is a single one, no further withdrawals are allowed except for interest and other charges. In this method no check books are issued . The securities in a loan account may be shares, government securities, life insurance policies and fixed deposit receipts.

b) Over drafts :

By this method a borrower is able to withdraw in excess of its credit balance standing within which he is allowed to over draw his account. For an overdraft account a current account is required to be formally opened by completing all the formalities required. Overdrafts are repayable on demand but can continue for long periods of time by being renewed annually. This proves to be a very convenient arrangement for the borrower. In this method, cheque book is provided as it is operative like current deposits and cash credit and the security offered are shares, debentures and government

securities and in special cases insurance profits and fixed deposit receipts are also accepted .

c) Clean Overdraft : This is very rare to be found and are extended by banks only to parties who are financially sound and reputed for their integrity, as the bank relies on personal security of the borrowers for this method. For proposals of clean advances, banks follow much restraint due to no backing of any tangible security. If the parties are already having secured advance facilities, this will be helpful for them as banks will favour their proposals..

d) Cash Credit is a method where a customer is allowed advances up to a certain limit against credit granted by the bank. The borrower can borrow upto the amount he requires and the surplus will be deposited in his account. Interest is charged on the amount availed by the borrower. Cash credit is sanctioned against security of goods like pledge or hypothecation.

e) Terms Loans : Are granted on the security of fixed assets for a period which normally range from 3 to 7 years and sometimes even for longer periods.

f) Bills purchased is a method where advances are made against the security of bills that are either clean or documentary. Sometimes bills are also purchased from customers. who are approved of or in whose favour regular limits are sanctioned.

The banker has to be satisfied about the credit worthiness of the drawer before the grant of a limit. Banks holds bills for the security of the advance granted by them. Against the security of bills, overdraft or cash credit limits are also allowed sometimes. Bills are not primary but collateral securities, and the banker is not a party to the bill but being an agent for the customer collects the bills. ¹

g) Hypothecation Facilities : Schemes have been evolved by commercial banks for the grant of credit facilities against hypothecation of raw materials, goods in process, semi-finished and finished goods.

h) Special Hypothecation facilities : Under this special scheme, State Bank of India and its subsidiaries meet the entire working capital of small scale industries, if requirements do not exceed a sum of Rs. 50,000 to Rs. 100,000. The units requirement of raw materials, stocks in process, finished goods, bills purchased and book debts are expected to be taken care of by the composite limit. Advances are conducted in the same manner as a hypothecation facility. ²

1. Khan R.R. op cit, pages 72-77.

2. Lal Sundarshan, Loans to Small Industries and Small Borrowers, 1976, Navrang Inderpuri, New Delhi pages 26, 27.

i) Short term loans are provided by all the branches of the State Bank of India to the small entrepreneurs. On working capital advances the margin varies from 25 percent to 50 percent.

j) Medium term loans are offered by the State Bank of India and its subsidiaries for acquiring of fixed assets and for the renovation and the expansion of the existing units. They are extended for a period of 7 to 10 years with a rate of interest of 8 percent per annum.

k) Instalment Credit is granted by the State Bank of India to the small entrepreneurs for the purchase of machinery either new or old, If the machinery is a old one the bank would prefer to satisfy itself that it is in good working condition and its life span would be enough to cover the mortgage schedule under the scheme. The margins in this method vary between 20 to 33 1/3 percent ; with a rate of interest of 9 percent.¹

2.3(b) Lending Procedure :

Normally all banks insist on registration of industries. By registration we mean eligibility to set up the industry and to take statutory requirements. There are certain formalities that has to be fulfilled before loans are granted to small scale industrial units by banks. Within the bank formalities is included documentation which has to be done first for loans to

1. Khan R.R.op. cit. pages- 81,82.

be financed by banks. The Bank formalities are as follows :

1. Filling up the application form of the bank .
2. Quotation, price list, availability of machinery, raw materials etc will be taken into consideration by banks
3. Up to 25,000 of loan amount, hypothecation of plant and machinery and other assets are allowed.
4. If the amount is above 25,000, additional security is required by way of guarantee and mortgage of immovable property etc.

After getting the application, the bank manager will first scrutinise the project for knowing whether the project is economically viable and technically feasible or not . Information with regard to availability of infrastructure facilities, whether the product is locally demanded or not, whether profit earning from the product is possible to cover production cost plus earnings are also seen to . If the project is viable, then collateral security and garanty are taken and then the applications are processed. Information is also taken with regard to the following:

- 1) Solvency of the person concerned ie. , income tax clearance certificate.
- 2) Municipal trade licence for the supply of electricity, sanction is taken for it.

- 3) In the present day, another certificate is necessary from the pollution board for ecological balance.

The two main important factors are (1) The scheme and (2) The man behind the scheme . Other factors are formalities. Once a project is proved to be economically viable and technically feasible, a banker agrees to the grant of loans to the respective small scale industrial units.

2.4 Recoveries :

Recoveries or repayment of loans differ from bank to bank and it also differs in the various schemes available for the grant of financial facilities to small scale industrial units. The recoveries of different banks and under different schemes are given below :

- 1) Term Loans are repayable on expiry of fixed periods exceeding 12 to 24 months or in periodic instalments- monthly, quarterly, half yearly or annually over a period of time, ^{the} maximum period being 15 years for backward areas.¹
- 2) State Financial Corporation loans are repayable in convenient instalments spread over 10 to 12 years and in exceptional cases even for 20 years.

1. Lal Sundarshan, op. cit., p.7.

3. In the credit Guarantee Scheme of the Reserve Bank of India ,

the amount recoverable varies with the amount of the loan as well as the ultimate balance in default. The maximum amount recoverable against the guarantee issued in respect of any advance is Rs. 2 lakhs.

4. Loan Account repayment may be the full amount or by way of schedules of repayment agreed upon as in the case of term loans .

5. Medium term loans which is offered by the State Bank of India and its subsidiaries are repayable either in monthly, quarterly, half yearly or yearly instalments.

6. Instalment credit granted by the State Bank of India is repayable in 5 years in suitable monthly, quarterly or half-yearly instalments.¹

7. Working Capital Advances which are extended by commercial banks and to a limited extent by State Financial Corporation and State Governments, are repayable in convenient periodic instalments of 5 to 7 years. If assistance is granted for working capital purposes only then the same is recoverable in three to five years.²

1. Khan, R.R. , op. cit. pages 72-82.

2. Baladr. Shahi, Management of Small-Scale Industries , 1984, Deep and Deep Publication New Delhi 27. p.98.

- 8) State aid to industries act which is a statutory provision of the State has a repayment period of 10 years with a low interest rate of 2 to 7 per-cent.
- 9) Seed Capital Assistance which is a special class of share capital raised on soft terms has the repayment of loan period after an initial moratorium of 5 years.
- 10) Concessional finance has a initial repayment period of 5 years and a longer repayment period upto 15 to 20 years.¹

Thus recovery of loans differ from bank to bank and for different schemes . If repayment of loans is not made by any small industrial unit timely, the party will lose claim of the bank and financial institution from where financial grant was made available.

1. Vepa Ram K., op.cit., page 65-69.

CHAPTER - III

3.1 The Principal Problems faced by Small Scale Industries :

The heritage of small scale industries in Assam is very rich but these industries are handicapped with innumerable difficulties.¹ In comparison with the large-scale industry, the small units suffer from many inherent weaknesses. The small enterprises are more flexible but they are highly vulnerable to any setbacks, these units enjoy the personal touch, but the entrepreneur has to be an all-purpose manager constantly harried by crisis after crisis.² In spite of considerable growth potential and existence of various promotional agencies in the north-east, the development of small scale industries still remains at a very nascent stage. The progress made in this field has so far been both tardy and lopsided.³ Several factors have constrained the growth and development of this sector. Some of these important difficulties and problems faced by small industries are enumerated below :

1- Finance and credit :

The main obstacle in the development of small scale industries is the scarcity of finance and credit. Usually the small industrial units have a very weak capital base

Source :

1. Dhar Pranab Kumar, op. cit., p. 123.
2. Khan R.R., op. cit., p. 50
3. Mahajan V.S., Studies in Industrial Economy of India, 1987, Deep and Deep Publications, New Delhi, p. 715.

since they generally have partnership or single ownership. The profits earned by these industries^{are} also not enough for investment purposes.¹ As pointed out by most studies, finance is no doubt one of the major problems of small scale industries. An International Planning Team that had visited India in 1954, has concluded that in many branches of small scale industry there is a severe lack of capital as well as credit largely because of low productivity and "over-population."² The Society for Social and Economic Studies emphasized that the dearth of capital resulted from a low income level, a small capacity to save and hence a lack of capacity to invest.³ Various research studies have also revealed the inadequacy of institutional source of finance.

The financial resources available to small scale industries are inadequate. Small scale industries have so limited internal resources that during the period of business strain there is no surplus to live on. When the business starts to grow and seeks further expansion, its financial weakness is exposed the most.⁴

For the availability of credit facilities the small scale industries have the following main institutional sources : State Directorate of Industries, State Financial Corporations, public sector banks and other banks. After the introduction of social control of banks in 1967, the policy of

1. Misra S.K. and Puri V.K., Indian Economy, 1987, Himalaya Publishing House, New Delhi, p. 735.
2. Report of Small-Scale Industries in India, International Planning Team, The Ford Foundation, Ministry of Commerce & Industry, Government of India, 1955 p. 39.
3. Capital for Medium and Small Scale Industries, Society for

granting credit to small scale industries has been liberalised by commercial banks. This situation has further improved after the nationalisation of banks in 1969. The criterion of 'credit worthiness' still weighs heavily with the commercial banks. For this it will be necessary to change the outlook of bank and liberalise the rules and practices of banking .

Scarcity of raw materials ;

Majority of the small scale industries depend on local resources for their raw material requirements¹ which is available neither in adequate quantity, nor of high quality. The small scale industrial units are unable to purchase raw materials in bulk, and so they are forced to purchase whatever quantity is available at high prices and inferior quality. Inadequate and irregular supply of raw-materials creates a problem for smooth functioning of these industries and the expansion of these industries has to suffer.² Small units due to problem of scarcity of raw materials fail to produce goods in required quantities and at reasonable costs.³ Irregular supply of raw materials and their rising prices create difficulties for small scale

1. Misra S. K. and Puri V.K. op.cit. p.735.

2. Dhar Prana Kumar, op.cit.p.124

3. Khan R.R., op.cit, p.54

producers in maintaining a continuous flow of production and meeting the production cost. Ultimately the firm face serious problems at the marketing stage.¹

3. Marketing Facilities :

One of the main problems faced by small scale units is in the field of marketing. Lack of proper marketing facility stands in the way of expansion of these industries. The small scale industrial units do not possess any marketing organization and as a result face difficulties in selling off their produce.² Absence of proper marketing arrangements lead these industries to sell their products to private dealers at unremunerative prices.³

Small producers have limited experience and in most cases are unable to spend huge sums on research and development, publicity and sales promotion measures. Moreover, the demand of their products remains undeveloped due to lack of proper brand names, standardization of products and organised marketing arrangements. Thus, the lack of proper marketing channels, imperfect knowledge of market conditions and unorganized nature of operations have constrained the growth and development of this sector.⁴

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1. Mehanty Bedabati, Economics of Small Scale Industries, 1986 Ashish Publishing House N. Delhi-26 Pages 128-129.
 2. Misra S.K. and Puri V.K., op cit, p.136.
 3. Dhar P.K. op cit p.124.
 4. Khan, R.R., op.cit. , p. 55.

The significance of marketing was brought out by Paul Hoffman, former administrator of the United Nations Industrial Organisation as follows : "It is illusory to think that a country can be industrialised by building factories- industrialization means building markets.¹ Peter F. Drucker in his article pointed out that marketing was generally the most neglected area in the economic life of developing countries.² A study undertaken by the National Council of Educational Research and Training emphasized that the optimal functioning of an economic system depended upon the even matching of the capability and efficiency levels attained by its productive and distributive systems.³ The National Council of Educational Research and Training suggested that marketing was probably the least developed aspects of the Indian economy and that there had been very little systematic attempt to study its problems in India.⁴ A.P. Sharma classified the marketing problems of small scale industries into those associated with the product and those with the market for the product. The former arises from lack of standardisation, differences in the quality of materials used and lack of precision. The latter stemmed from inadequate resources at the disposal of small scale industries for identifying market outlets and tapping

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1. Padolecchio Siro P, Marketing in the Developing World, 1979, See Bala, op. cit. p.21.
 2. Drucker Peter F, Marketing and Economic Development See Bala op.cit p.21.
 3. New Perspective in Marketing , NCERT 1972 see Bala op.cit, p.21.
 4. NCERT, 1972 op.cit p.16. See Bala op. cit. P.21.

them profitably.¹

Several Studies have emphasized the need of market research and information.² The International Labour Office suggested that co-operative societies or Government-aided agencies should undertake market surveys and market research since these would be too expensive for individual small firms.³ The working Group on Small Scale Industries for the Third Five year Plan also recommended similarly.⁴

4) Technical Assistance :

Absence of proper training facilities to the artisans is hurdle / the small scale industries are facing.⁵ The small scale industries industrial development programme suffers from lack of efficient management due to non availability of trained and experienced personnel. There is no proper institutional set up for development of technical and managerial talents. As a result, supervision is weak and working efficiency below the desired level leading to higher operational cost. Moreover, prevalence of low level of technology, shortage of trained and experienced personnel have led to the following of out_dated methods of production and production of goods of old design and style.⁶

1. Sharma A.P., Marketing Problems of Small Scale Industries p.159. See Bala op.cit, p.21.
2. Kulkarni, Pradhan and Patil, Modern Marketing Research, 1980. See Bala op.cit, p.21.
3. International Labour office op.cit, p.29 See Bala op.cit, p.21.
4. Report of the Working Group, Small Scale Industries-Programmes of Work for the Third Five Year Plan, 1959, Ministry of Commerce & Industry Government of India p.93 See Bala op.cit, p.21.
5. Dhar P.K. op.cit, p.124.

The International Planning Team pointed out that Indian industries used obsolete tools and machinery and that without modernization these were condemned to mediocrity and eventual elimination.¹ The difficulties were : lack of finance, lack of adequate demand, government restrictions, lack of space, lack of power supply and inferior quality of products.² The UNESCO Research Centre on Social and Economic Development also found that in many small units the methods of production were traditional , adoption of modern techniques were either disliked by the entrepreneur or was not feasible.³ P.N. Dhar and H.F. Lydall maintained that since majority of the small entrepreneurs has insufficient technical and managerial background, and that private agencies were not able to meet the needs, there was a case for Government assistance.⁴

5) Competition from large-scale organised industries:

The small scale industries are facing stiff competition from the large scale organised industries. But due to its high cost structure, poor quality of products, and adoption of old designs, it cannot stand in the competition with the organised industries and thus their very existence has been threatened.⁵

1. International Planning Team, op. cit, p.2. See Bala op.cit.p.23.
2. Lakdawala DJ and Sandesara J.C., op.cit, pp.167-71. See Bala op.cit. p.23.
3. Unesco Research Centre on Social and Economic Development in Southern Asia. 1962 op.cit, p.18 . See Bala op.cit. p.24.
4. Dhar P.N.and Lydall H.F., op.cit., p. 65 . See Bala Op.cit.p.24
5. Dhar P.K. op.cit. p.125.

6) Provision of Electricity:

The Power problem of small scale industry has not been dealt with by any studies. Some studies have mentioned that small scale units have some problems owing to power-cuts. A decision has been made for a detailed study of the power problem of small scale units, particularly because power is produced and allotted by the Government.¹

7) Other difficulties :

The problems faced by small scale industrial units are many, like lack of enough finance for the purchase of raw materials and lack of distribution channel to route the products produced. Inability of sending out the items of produce to market and lack of marketing channels and financial and economic problems the small scale units come in the clutches of middleman. As a result of this a vicious circle is created between the trader and artisan by which the artisan has to procure raw materials from the trader at high price and his articles are sold to him at lower price, the price being dictated by the trader. The lack of proper training facility and higher price of raw materials, results in

1. Bala Dr Shashi op cit., p.24.

high manufacturing cost and poor quality products. Other problems faced are lack of storage space for raw material and finished products, and the lack of demand in rainy season. Steps have also been taken to improve these situation.

Indepth study of the status of the existing small scale industries, the resource availability, market and requirement of major buyers and the Industrial Policy of the Government of Assam indicates bright prospects for the establishment of new units with the present level of infrastructure and facilities. However, the major bottlenecks of supply of power, water, skilled manpower, transport facilities, industrial accomodation etc. should be taken care of inorder to achieve faster development. Concerted efforts are required on the part of State Government, the Directorate of Industries and all development agencies to devise measures and implement it efficiently to minimise the problems of small scale units. The new Industrial Policy has been welcomed by all with enthusiasm, but its success depends on its implementation. The stress of the development agencies should not be on the quantity of the service alone, but on its quality and productivity.¹

1. National Productivity Council, op.cit. , Pages 56,61,68.

3.2 Proportion of Finance obtained from Banks and non-banking institutions :

Table 3.1

Performance of Banks in Kamrup District Under Annual Action Plans 1985-1988.

(Amount in lakhs)

Serial No.	Year	Target	Achievement
1.	1985	291.20	262.72
2.	1986	335.7	321.9
3.	1987	356.96	317.95
4.	1988	386.30	325.29

Source - Lead Bank Office, Kamrup.

Table 3.1 reveals the performance of All Commercial Banks in Kamrup district in advancing loans to small scale Industries under Annual Action Plans 1985, 1986, 1987 and 1988.

In the year 1985, all commercial banks advanced loans to small scale industries, however the amounts advanced by United Bank of India, Central Bank of India, Allahabad Bank, Syndicate Bank, Punjab and Sind Bank, Vijaya Bank, Grindleys'

Bank, Co-operative Urban Bank, Co-operative City Bank and Federal Bank are not known due to non availability of accounts of loans advanced by these banks in the lead Bank office.

In the year 1986, due to non availability of records the loans advanced by certain banks for the development of small scale industries are not known, these banks are New Bank of India, Bank of India, Oriental Bank of Commerce, Bank of Baroda, Federal Bank, Grindleys' Bank and Indian Bank. Some banks did not advance any loans in 1986, they are Syndicate Bank, Dena Bank and State Bank of Bikaner and Jaipur.

In the year 1987, all commercial banks had advanced loans to small scale industries. In the year 1988, most of the commercial banks had advanced loans to small scale industries, due to lack of submission of records in the lead Bank Office, amounts advanced by Central Bank of India, Allahabad Bank, Purbanchal Bank, Bank of Baroda, Syndicate Bank and Indian Bank are not known .

Table 3.2

Number of Cases Sponsored through D.I.C. to various
Financial Institutions. Its Sanctioned Amount .

(Rs. in lakhs)

Years		Banks		A.F.C.		NSIC		Total	
1	No of cases Sanc-tioned	Amount	No of cases Sanc-tioned	Amount	No of cases Sanctio-ned	Amount	No.of cases Sanc-tioned	Amount	
1	2	3	4	5	6	7	8	9	
1979-80	37	14.70	3	3.90	2	3.02	42	21.62	
1980-81	42	25.50	4	5.20	2	8.93	48	39.63	
1981-82	54	47.60	3	2.28	6	4.90	63	54.78	
1982-83	44	103.45	4	4.32	46	35.56	94	143.33	
1983-84	82	128.19	4	2.41	28	16.09	114	146.69	
1984-85	89	182.00	8	16.60	120	180.00	217	378.60	
1985-86	87	183.60	11	19.90	27	31.24	125	234.74	
1986-87	172	201.40	14	26.60	17	22.05	203	203.05	
1987-88	211	295.00	9	40.50	14	18.88	234	354.38	
Total	818	1181.44	60	121.71	262	320.67	1140	1576.82	

Source : Action Plan 1988-89 to 1992 -9 3, District
 Productivity Centre, Kamrup.p.35.

Table 3.2, reveals the number of cases sponsored through District Industries Centre to various Financial Institutions and its sanctioned Amount from the year 1979 to 1988.

The total number of cases ~~46~~ were 1140 in number and the total amount was Rs. 1576.82 lakhs . The highest amount given by banks and Assam Financial Corporation was in the year 1987-88, while national Small Industries Corporation sanctioned the highest amount in the year 1984-85.

Proportion of finance obtained from non-banking institutions:

Non-banking institutions are also important sources providing financial and other assistance to the Small Scale Industries under its various schemes. Important non-banking institutions which have aided small scale industries in Kamrup district are Assam Financial Corporation (AFC) and Assam ^{Small} Industries Development Corporation (ASIDC).

Table 3.3(a) Assam Financial Corporation Highlights

	31.3.85	31.3.86	31.3.87
Paid -up capital	360.00	366.67	366.67
Reserves	134.18	186.06	207.46
Borrowings :			
1) Bonds	565.00	647.50	757.50
ii) IDBI (Refinance)	590.49	578.46	768.79
Cumulative effective sanctions	2657.21	2930.48	3660.27
Cumulative Disbursement	2350.17	2572.38	2963.43
Outstanding loans And Advances.	1679.03	1829.25	2118.06

Source : Annual Report 1986-87, Assam Financial Corporation p.3.

Table 3.3 (b)

	1984-85	1985-86	1986-87
Loans Sanctioned	285.71	309.21	752.62
Loans Disbursed	186.20	222.21	391.00
Recovery (Principal)	112.00	111.00	157.00
Gross Income	173.74	193.88	214.69
Net Profit	44.58	50.04	42.26

Source : Annual Report 1986-87 (Assam Financial Corporation).
p.3.

Table 3.3 , reveals the highlights of Assam Financial Corporation in the year 1985, 1986 and 1987. The year 1986-87 was a year of Record Performance for AFC. In the key areas of its operation viz, Sanction, Disbursement and Recovery the Corporation has scaled a new height during the year. Total sanction during the year crossed the highest record of Rs.407 lakhs achieved in 1981-82 and touched Rs.753 lakhs an increase of 85 percent. In respect of disbursement the Corporation could set a new record of 391 lakhs an increase of 12.68 percent from the amount in 1982-83.

Table 3.4

Size -Wise Classification of Loans Sanctioned During
1984- 1987: by Assam Financial Corporation (A.F.C.)

(Rs. in lakhs)						
Size of Assistance			Sanctions			
	No	1984-85 Amount	No	1985-86 Amount	No	1986-87 Amount
i) Loans upto Rs.10,000/-	16	1	31	3	67	6
ii) Loans from 10001/- to Rs. 25,000/-	6	1	18	3	83	15
iii) Loans from 25,001/- to Rs. 50000/-	15	6	12	5	62	25
iv) Loans from 50,001/- to Rs. 1,00,000/-	10	8	13	12	31	26
v) Loans from 100001 to Rs. 2,00,000/-	14	21	14	23	25	34
vi) Loans from 2,00001 to Rs. 5,00000/-	14	52	9	25	22	70
vii) Loans from 500001 /- to Rs. 10,00,000/-	11	72	12	81	12	98
viii) Loans from 1000001/- to Rs. 20,00000/-	5	71	2	22	10	134
ix) Loans from 2000001 to Rs. 3000000/-	2	53	5	135	1	29
x) Loans from 30,00,001/- to Rs. 60,00,000/-	-	-	-	-	8	316
	93	285	116	309	321	753

Source : Annual Report (A.F.C.) 1986-87 p.12

Table 3.4 reveals the classification of Loans Sanctioned by Assam Financial Corporation during 1984-85, 1985-86 and 1986-87. As may be observed from the above table out of 321 loans sanctioned during the year under review 268 loans were in the group of loans upto Rs. 2 lakhs which is about 83% of the total loans. Almost 62% of this group were sanctioned by Regional and Branch Offices of the Corporation.

Table 3.5 A.F.C.'s net effective financial assistance and Outstanding since inception to 31.3.87

Particulars	Small Scale Industries	
	No	Amount
<u>Sanctions :</u>		
Loans	1559	2086.69
Underwritings	-	-
Direct Subscriptions	1	0.95
<u>Disbursements :</u>		
Loans	1431	1751.78
Underwritings	-	-
Direct Subscriptions	1	0.95
<u>Outstandings :</u>		
Loans	1146	1453.69
Underwritings	-	-
Direct Subscriptions	1	0.95

Source : Annual Report 1986-87 (A.F.C.) p.12.

Table 3.5 reveals Assam Financial Corporation's net effective financial assistance to small scale industries and outstanding since inception upto 31st March, 1987. Till 31st March 1987, A.F.C. gross sanction was Rs. 4304 lakhs to 1932 beneficiary units out of which 1716 small scale industries shared Rs. 2326 lakhs which is about 54 p.c. of the total amount sanctioned.

Table 3.6

Classification of loans and Advances to Small Scale Industries of Kamrup District as at 31st March 1987 by A.F.C.

For Small Scale Industries				(Amount in Lakhs of Rs.)			
S.No.	Name of District	Loans Sanctioned (effective)		Loans disbursed		Outstanding	
		No	Amount	No	Amount	No	Amount
1	2	3	4	5	6	7	8
1	Kamrup	488	816.79	439	672.74	369	628.32

Source : Annual Report 1986-87 p.33.

Remarks : (1) Loans outstanding include interest accrued and due but not realised on loans during 1979.-80 and 1980 -81, when Corporation followed Cash System of Accounting.

(2) Excess of disbursement over sanction includes Insurance premia and other charges debited to loan account.

Source : Annual Report A.F.C. 1986-87.

Table 3.6 , reveals the classification of loans and advances to small scale industries of Kamrup district as at 31st March 1987. The amount given is in lakhs of rupees.

Table 3.7

Statement of Loans, Sanctioned, Disbursed and Lag between
Sanction and Disbursement of Loans by A.F.C.

Small Scale Industries (Amount in lakhs of rupees)						
Year Ended	Loans Sanctioned (effective)		Loans Disbursed		Lag between both	
	No	Amount	No	Amount	No	Amount
1	2	3	4	5	6	7
March 31st '85	1164	1531.88	1120	1324.51	44	207.37
March 31st '86	1267	1702.15	1199	1477.53	68	224.62
March 31st '87	1559	2086.69	1431	1751.78	128	334.91

Source : Annual Report (Assam Financial Corporation)
1986-87 p.37.

Table 3.7, reveals the loans sanctioned, disbursed, and lag between sanction and disbursement of loans to small scale industries by Assam Financial Corporation. The highest amount of loans which was both sanctioned and disbursed was in 31st March 1987 as shown clearly by the figures in the table.

Assam Small Industries Development Corporation Ltd :

Assam small Industries Development Corporation (ASIDC), under its various schemes, provide financial and other assistance to small scale units for its development . Summary

statements of position of assisted units under various schemes of ASIDC in Kamrup since inception till 31.3.87 (25 years) are as follows as given in Table No. 3.8.

Table 3.8 :
Position of Assisted Units Under Various Schemes of ASIDC
in Kamrup since inception till 31.3.87 (25 years).

S1.No.	Scheme	No.of unit assisted	Amount disbursed	Amount recovered	Amount Outstanding
1	2	3	4	5	6
1	Hire-Purchase Assistance	53	17,89,194.93	6,03,603.63	13,62,633.25
2	Seed Money Assistance	96	29,52,132.46	35,46,97.10	16,77,641.46
3	Special Employment scheme	5	14,800.00	2,700.00	14,702.00
4	Schedule Development Scheme	17	24,111.40	8,610.00	82,972.00
5	Schedule Tribe Development Scheme.	23	1,82,112.55	20,952.36	80,312.62
6	Special Incentive Scheme under Tribal Sub-Plan	84	14,12,439.87	-	-
7	Marketing Assistance	54	61,75,902.25	147,100,060.55	17,40,933.51
8	Allotment of Industrial Shed in Industrial Area, Guwahati.	37	-	-	43,47,05.55
					(By way of rent)

Source : ASIDC 25 years report. (1-8)

Table 3.8, reveals the position of assisted units under various schemes of Assam Small Industries Development Corporation in Kamrup district for 25 years from 27.3.62 to 31.3.87. The amount of assisted units were highest under the seed Money Assistance Scheme, Under which 96 units were benefitted and lowest under special Employment Scheme under which 5 units were benefitted. Other units assisted and benefitted from the various schemes of ASIDC is between the highest and lowest number of units assisted as shown by the figures in the table.

3.3 Policy Towards Financing Fixed and Working Capital :

The major cause of failure of small scale industries is the shortage of funds for meeting the working capital needs . It is of vital importance that working capital is managed and controlled in a proper manner to avoid business failures due to lack of continuing finance . Working capital is required for running the day -to- day business of a firm. It is a concept associated with current assets like cash, short-term securities, trading non-monetary assets like stocks , work in progress and debtors. Working capital finances the various expenses and losses which is in the form of purchases, salaries, wages, commission, discount, rent, electricity etc. Working capital requirements are not the same throughout the year, it increases during the peak

periods of business activity and lessens during off-season. Working capital may be initial, regular, permanent, seasonal, cyclical and special. There are various sources for meeting the working capital needs of small scale industries. They are as follows :

1) Trade Credit :

It is a very important source of working capital represented by goods and services like electricity, telephone charges, rent, wages expenses received by the firm for which payment is made. It is represented by accounts receivable by the supplier depending upon the trade custom, the type of goods and the financial position of the supplier who are short of cash and are unlikely to grant credit. Trade credit is a very convenient source of finance granted for a period of 30, 60, 90 or 120 days after purchase. The extent of trade credit is subjective, dependent on individual circumstances.

2) Bank Over Draft Facilities :

It is an agreed line of credit on which a small entrepreneur can draw current account cheques. Over-draft facilities are provided to small enterprises by commercial banks for a period of 6 to 12 months according to cash requirement of the firm.¹

1. Khan R.R. op.cit. Pages 60, 61.

3) Hypothecation Facilities :

Credit is granted by Commercial banks against hypothecation of raw materials, goods in process, semi-finished and finished goods.

4) Special Hypothecation facilities :

This is a special scheme for meeting the entire working capital requirement by State Bank of India and its subsidiaries, which cannot exceed a sum of Rs. 50,000 to Rs. 100,000. This limit is expected to take care of all the requirements of a unit for raw materials, stocks in process, finished goods, bills purchased and book debts etc. The advance is conducted in the same manner like hypothecation facility.

5) Government Supply Bills *

Commercial banks provide lending facilities to small scale units when supply orders of Central and State Governments. and Public Sector Undertakings are accompanied by authorised inspection notes and evidences.¹

Fixed Capital :

Term Loan is required by small scale industries for acquiring fixed assets like the purchase of land, construction of

1. Lal Sundarshan , op.cit Pages 26,27,29.

factory buildings and purchase of machinery and equipment . These loans are repayable in periodic instalments, over a period of time like monthly, quarterly, half yearly or annually. In the case of backward areas the maximum period is 15 years.¹ For the acquisition of fixed assets credit is provided by various credit institutions, which are as follows :

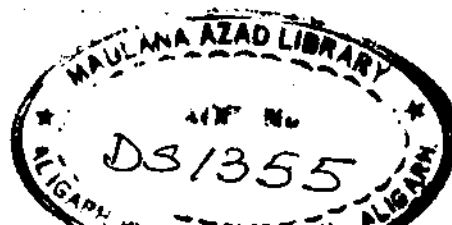
1) State Financial Corporation (SFC) :

Loans are granted by SFC for purchase of land, construction of building, and purchase of machinery and equipment both from within the country and abroad. Initially a holiday of two years is allowed for repayment of the principal amount which is enhanced to 7 years, 10 years and further to 12 years for backward areas.

2) Commercial Banks :

Medium term ~~term~~ financial assistance is provided by commercial banks to new and existing industrial enterprises for the construction of factory building and purchase of machinery and equipment. In the case of new units in backward districts, the rate of interest charged are reduced .Rate of interest charged are as follows :

1. Lal Sundarshan, op cit, p.7.



For Backward districts 9.50 percent
 Areas other than backward district..... 11.0 percent

Loans are recoverable in periodic quarterly or half-yearly instalments from three to five years extended to seven years in deserving cases.

3) National Small Industries Corporation(NSIC) and State Small Industries Corporation (SSIC)

Small scale and ancillary industries are provided machinery on hire purchase basis by both NSIC and SSIC, the value of which should not exceed Rs. 10 or 15 lakhs. Applications for machinery on hire purchase basis are routed through District Industries Officer and Director of Industries to the Regional office of NSIC or Head Office of SSIC. Certain SSICs also accept applications directly from prospective hirers.¹

3.4 Deficiencies in lending by Banks :

For the effective functioning of the small scale industries it is necessary that credit is available to them on easy and liberal terms. Problems are faced in the appraisal of a project to assess its viability, and the norms adopted for testing it may not always be reliable. Moreover,

1. Lal Sundarshan op.cit. , , Pages 17-25.

whether a borrower is creditworthy or not to get financial aid from banks, such appraisal may not always provide the right answer. An institutional framework is necessary to be set up so that deserving entrepreneurs are able to get credit facilities both short and medium term to meet their various requirements.

Commercial banks are reluctant to extend credit to small scale industries mainly for the fact that the securities offered by them are not acceptable to the banks. Moreover, it is both difficult and unprofitable for the banks to operate numerous loans. But provision of the financial needs of the small scale industries by banks are in the interest of the economy as a whole. Small scale industries play a vital role in the Indian economy which is evident from the fact that its contribution to the National Income is greater than the larger establishments.

The Reserve Bank of India (RBI) has given directions to the commercial banks to sanction loans and advances to small entrepreneurs on the basis of viability of the scheme rather than on the basis of security criterion. The R.B.I. has also instructed the commercial Banks to adopt a flexible approach in matters of margin requirements for small scale industrialist, technically qualified and other entrepreneurs sponsored under the special employment

scheme of the central and state governments. Other recommendations are setting up of a National Equity Fund, ^{system of interest} slab/publicity arrangements and strengthening of the small Service Institute offices are being pursued by the Government.

To solve the problem of reluctance of banks to extend finances to small scale industries due to risk involved, the RBI in July 1959, organised a seminar on Financing of Small scale Industries which concluded that bank lending to small scale industries can be enlarged by sharing the risk involved in it with some other agency set up specially for this purpose. Accordingly, Government of India in consultation with R.B.I. has chalked out a 'Guarantee Scheme' for the enlargement of the supply of institutional credit to small scale industries by the grant of a degree of protection to the lending institutions against possible losses in respect of such advances. There are various reasons responsible for banks not adopting a helpful attitude in assisting small scale industries due to many defects of it which may be recapitulated as follows :

- 1) Inability to offer adequate securities.
- 2) Absence of specialisation
- 3) Difficulties in connection with importing specialised types of machinery for the manufacture of certain products.

- 4) Lack of managerial and specialised skills.
- 5) Lack of adequate transport facilities.
- 6) Power shortage and
- 7) Absence of audited accounts.

The small Industries on their part are confronted with :

- 1) Rigidity of approach on the part of lending institutions.
- 2) The complicated nature of information required for getting financial aid from banks.
- 3) Strict requirements of security, rigid prescriptions of acceptable collaterals and
- 4) Delay involved in the sanction of loans.

Small Industries on their part should try to remedy their defects and render themselves more creditworthy by adopting the following measures:

- 1) Small industries should furnish as much information they can about various aspects of the concern to the lending institutions.
- 2) Maintenance of audited accounts should be done for concerns' own interest and for facilitating assessment of loan proposals by lending institutions.

- 3) Acceptable evidence should be produced by units for the verification of value of assets offered as security.
- 4) Loans sanctioned should only be used for the purpose taken for
- 5) In the case of industrial concern where the prospects depend on a single individual or individuals or when loan is given on personal security or guarantee, the lender's interest should be safeguarded by insuring the life of such individual or individuals or guarantees during the period of the loan.

It is gratifying to note that the above measures have brought about a welcome change in the attitude of banking community towards the needs of the small scale sector.¹

3.5 Importance of non-Banking Institutions in Financing Small Scale Industries :

Non-Banking institutions are important sources for financing the small scale Industries. There are various schemes under which financial and other aids are given to small scale industries by non-banking institutions like. Assam small Industries Development Corporation (ASIDC) and Assam Financial Corporation (AFC).

1. K.C. Shekar, op.cit. p. 120-123.

1. There are eleven schemes in all for the provision of various facilities by ASIDC, among the various schemes the ones figuring in the survey under taken are given below :

1. Hire Purchase Scheme
2. Seed Money Scheme
3. Marketing Assistance Scheme
4. Infrastructure Assistance and
5. Raw Material assistance scheme.¹

- 2) Assam Financial Corporation has thirteen schemes in all, out of which schemes figuring in the survey are as follows:

1. Financial Aid to Artisans, Village and Cottage Industries and the Tiny Sector.
2. Transport Loan Scheme.
3. Special Capital Scheme.
4. Equipment Finance Scheme and
5. Disbursement of Term Loans.²

-
1. Assam Small Industries Development Corporation Twenty five years Performance Report from 27.3.62 to 31.3.87 pages. 1-10.
 2. Annual Report, Assam Financial Corporation 1986-87 page 13-16.

Survey Results

Most of the small scale industries are situated in and around Guwahati, so industries from this area has been taken for a study of sample industries. Small scale industries producing different items have been included in the survey work to give an idea about the principal small scale industries operating in Kamrup district. The ten main industries included in the survey undertaken has been divided on the basis of successful and unsuccessful industries, selection of industries in each category being done by purposive sampling . By successful industries we mean those small scale industries that have been able to get profits from production and sale of their products ; and by unsuccessful industries we mean small scale industries that are unable to earn profits from their production and sale but have run into loss. The industries were surveyed through a questionnaire by the method of interview ie, by personally going to the industrial site and noting down the replies in the presence of bank officials and other officials and the small industrialist. The pattern of the questionnaire adopted for the survey work is given in Appendix 1. The surveyed industries are as follows :

Questionnaire for sample IndustriesSuccessful IndustriesIndustry No.1

- 1) Name : Assam Canvas Craft Industry.
- 2) Location: Industrial Estate Inside by lane No.3
Bamunimaidan Guwahati-781021.
- 3) When started : 1959
- 4) Nature of products : Tent, Tarpaulin, Steel furniture,
Cane furniture Fencing materials etc.
- 5) Total output During last three years :

Items	1985-86		1986-87		1987-88	
	Qty	Value	Qty	Value	Qty	Value
1. Tent	90Nos	2, 25, 700.00	88Nos	3, 08, 164.00	205Nos	4, 57, 448.00
2. Tarpaulin	59 ,,	98, 070.00	194 ,,	2, 12, 307.81	98 ,,	1, 21, 042.38
3. Hood	36 ,,	33, 952.00	31 ,,	39, 606.00	40 ,,	56, 695.90
4. Steel Cot	472,,	1, 58, 120.00	590 ,,	2, 30, 701.00	1587,,	5, 72, 760.00
5. Cane stick	163,,	1, 141.00	4400,,	33, 308.00	5959,,	45, 109.63
6. Water bottle	344,,	24, 424.00	39 ,,	2, 886.00	61 ,,	3, 105.25
7. Rain coat	38 ,,	9, 500.00	220,,	32, 000.00	38 ,,	8, 180.00
8. F.S. Hat	38 ,,	380.00	39 ,,	801.84	1726,,	17, 294.56
9. Canvas Cloth	700 Mtr.	31, 500, 500.	250 ,,	11, 779.00	-	-
10. Steel chair	214Nos.	38, 520.00	614 ,,	95, 968.00	973,,	1, 58, 940.00
11. Steel Table	43 ,,	61, 361.00	106 ,,	1, 34, 389.00	59 ,,	80, 801.00
12. Durry	70 mtr.	5, 660.00	5 ,,	1, 800.00	17 ,,	12, 665.40

contd.

1985-86			1986-87		1987-88	
Item	Qty	Value	Qty	Value	Qty	Value
13. Wire nothing sheet	1800Nos.	1,21,050.00	-	-	2057Nos.	1,63,061.00
14. Water tank	5Nos	19,375.00	-	-	-	-
15. Mosquito net stand	108sets	9,396.00	45Sets	3,915.00	-	-
16. Barricade Panel	20pairs	28,000.00	-	-	-	-
17. S.D.M. set	10,000 Mtr.	52,000.00	275sets	17,187.50	-	-
18. Shamiana	4nos	58,159.20	12nos	71,891.58	14Nos	1,50,630.79
19. Samina wall	-	-	25,,	25,556.11	28,,	38,064.00
20. Zipsyhut	-	-	9,,	40,500.00	-	-
21. Cane shield-	-	-	1075,,	69,875.00	385,,	25,025.00
22. Web Rack	-	-	200,,	6,450.00	-	-
23. Wel Anklet	-	-	999,,	6,743.25	-	-
24. Wel for Haver Sack	-	-	451,,	9,061.36	-	-
25. Strap for Haver Sack	-	-	420,,	2,940.00	-	-
Total		9,96,308.20		13,57,830.45		12,10,819.91

The table presents that the total value of different products produced by Assam Canvas Graft industry, which was the highest during the period 1986-87. There was a gradual decrease in total value of production during 1987-88 and during 1985-86 the total production value was much lesser.

6) Financial Assistance received from different sources at the initial stages :

- a) Own finance used - Yes
- b) Finance taken from Banks- Up to the year 1965 no financial assistance was taken from Banks.
- c) Finance taken from relatives - Nil
- d) Any other source -No

7) Name of the Bank and Particular Branch :

State Bank of India (New Guwahati Branch Bamunimaiden) .

8) Amount received since the inception :

a) Fixed Capital :

<u>Year</u>	<u>Amount Received</u>
In 1965	Rs. 30 thousand (It has been added and the total amount now has become Rs. 2 lakhs.)

b) Working Capital :

<u>Year</u>	<u>Amount Received</u>
In 1985-86	1 . Rs. 6.48 lakhs
	2 . Rs. 4.28 lakhs

In 1986-87

1. Rs.6.33 lakhs
2. Rs. 4.28 lakhs
3. Rs. 4.lakhs (cash credit)

In 1987-88

<u>Term loans</u>	<u>Cash Credit</u>
(Nursing Account)	
731985.46	497000/-(Stock)
1137200.39	483000/-(Bills)
217018.08	
23816.26	

9) Terms of the loan :

- a) 1985-86 - Cash credit
- b) 1986-87 - Cash credit
- c) 1987-88- Term loan and cash credit for revival against sick units.

10) Difficulties experienced in getting loans by the industrial Units :

- a) Loans whether timely received or not - Not timely received.
- b) Whether procedural difficulties were faced -none.
- c) Other difficulties faced -Loans got are inadequate.

11) Nature of utilisation of borrowed money :

1. Against raw materials and
2. Payment of wages.

12) Income expenditure :(Sales and Profits)

<u>Year</u>	<u>Sales</u>	<u>Profits</u>
1985	9,96,308.20	10% Profits
1986	13,57,830.45	12% profits
1987	12,10,819.91	15% Profits.

The above table shows the sales and profits made by Assam Canvas Craft Industry during the year 1985, 1986 and 1987. The sale of products was the highest in the year 1986 followed by the year 1987 and then by the year 1985. The profits earned by sale of products was the highest in the year 1987 which was about 15% followed by a decline of 3% in the year 1986. and a decline of 2% in the year 1985.

13) Impact of Bank finance on production of small scale industries :

Loans given by banks has always been effective, specially for the provision of working capital. Production has also been able to increase by the financial aid received from banks.

14) Repayment of Loans taken (as per terms):

- | | |
|---------|--|
| 1985-86 | - Repayment could not be made |
| 1986-87 | - Repayment could not be made |
| 1987-88 | - Cash Credit and Term loan bill is repayable on demand. |

Questionnaire for Sample Industries

Industry No.II

- 1) Name : Pathak Chemical.
- 2) Location : Industrial Estate By Lane No.1, Bamunimaidan
Guwahati- 21.
- 3) When started : 1970
- 4) Nature of products : Manufacturer of writing ink, candle sticks, distilled water, rubber stamping etc.

5) Total Output During Last Three years :

<u>Year</u>	<u>Amount</u>
1986	8,43,071.90 (Value)
1987	7,71,325.19
1988	10,80,591.00

6) Financial Assistance received from different sources at the initial stages :-

- a) Own finance used - Rs.800
- b) Finance taken from Banks - Rs.30,257
- c) Finance taken from relative- Nil
- d) Any other source - No

7) Name of the Bank and Particular Branch :

1. Bank of India (Guwahati Branch Kamarpatty)
2. Co-operative City Bank Limited (Silpukri, Guwahati -3)

8) Amount received since the inception:a) Fixed Capital :

<u>Year</u>	<u>Amount Received</u>
1970	Rs.30,257 + interest has become nearly 50,000(Bank of India).
1972	Rs.26,000(Assam Small Industries Development Corporation)

b) Working Capital :

<u>Year</u>	<u>Amount Received</u>
1987-88	Cash credit Limit of Rs.2 lakhs (Co-operative City Bank)

9) Terms of the Loan :

1972 (Hire-Purchase of Machinery from ASIDC)

1987 (Cash Credit from Co-operative city Bank Ltd,
Silpukri , Guwahati - 3).

10) Difficulties experienced in getting loans by the industrial Units :

- a) Loans whether timely received or not - Yes loans were
received timely.
- b) Whether procedural difficulties were faced - No
- c) Other difficulties faced - None

11) Nature of utilisation of borrowed money :

For raw material purchasing and for processing the finished goods .

12) Income Expenditure : (Sales and Profits)

<u>Year</u>	<u>Sales</u>	<u>Profits</u>
31st March 1986	8,43,071.90	48,556.09
31st March 1987	7,71,325.19	50,719.48
31st March 1988	10,80,591.00	60,345.92

The above table shows the sales and Profits made by Pathak Chemicals during the year 1986, 1987 and 1988. The sale was the highest in the year 1988, it declined a bit in the year 1986 and declined further a bit in the year 1987. Profits earned from sale of products produced was the highest in 1988 followed by in the year 1987 and the year 1986.

13) Impact of Bank Finance on production of small scale industries:

Increase in ^dproduction could be achieved due to receipt of bank finance, leading to increase in sales and income.

14) Repayment of Loans taken (as per terms) :

Assam small Industries Development Corporation loan repayed in 1977 (by cheque).

Cash credit repayed as per procedure of it.

Original money of Rs. 30,257 was given at 10% rate of interest. The amount was unable to be paid back as per terms. The Bank had to proceed to the Court to realise the amount. The bank got the decree in the Court, where it was decided that the amount will be paid back at 6 % per annum rate of interest. This has been done by the owner of Pathak Chemical . Now though there is a pending money of Rs. 25,000 in the ledger of Bank of India, the total money has been actually paid back by Pathak Chemical Industry.

Questionnaire for Sample Industries

Industry No. III

1. Name : Barua Industry.

2. Location: Industrial Estate Lane No.1, Guwahati-21.

3. When started : 1963
4. Nature of products : Waterproof goods.
5. Total Output During last three years :

<u>Year</u>	<u>Value</u>
1985	Rs. 35 lakhs
1986	Rs. 38 lakhs
1987	Rs. 40 lakhs

The above table shows the value of production of Barua Industry in the year 1985, 1986 and 1987. The value of products produced was the highest in the year 1987, the amount being of the value 40 lakhs, which declined by 2 lakhs in the year 1986 and further declined by 3 lakhs in the year 1985.

- 6) Financial Assistance received from different sources at the initial stages :

- a) Own finance used - Rs. 75,000.
- b) Finance taken from Banks - Bill discounting facilities only
- c) Finance taken from Relatives - Nil
- d) Any other source - Credit from suppliers.

- 7) Name of the Bank and Particular Branch :

1. City Co-operative Bank (G.N.B. Road)
2. State Bank of India (New Guwahati Branch).

8) Amount received since the inception :a) Fixed capitalYearAmount Received

No money was taken for fixed capital purpose . It was managed on own finance.

b) Working capitalYearAmount Received

1970

- 1.Rs.20,000 (Assam Financial Corporation)
- 2.Credit taken from suppliers when when need is felt.
- 3.Bills discounting facilities from banks.

9) Terms of the Loan :

In 1970 loan was taken from AFC to meet working capital needs . Credit is also taken from suppliers from time to time to meet the working capital needs.

10) Difficulties experienced in getting loans by the industrial Units :

a) Loans whether timely received or not -Loans were timely received.

b) Whether Procedural difficulties were faced : Finance given by banks requires lots of formalities and only secured loans are given.

c) Other difficulties faced : Payment from Government has been delayed.

11) Nature of Utilisation of borrowed money :

Credit borrowed from banks was used for raw-materials and payment of wages.

12) Income expenditure :(Sales and Profits)

<u>Year</u>	<u>Sales</u>	<u>Profits</u>
1985	35 lakhs	12%(Gross Profits)
1986	38 Lakhs	12%(,, ,,)
1987	40 Lakhs	12%(,, ,,)

In the above table the sales and profits of Barua Industry has been given during the year 1985, 1986 and 1987 . The sales made was the highest in the year 1987, which declined by 2 lakhs in the year 1986 and further declined by 3 lakhs in the year 1985.. Profits earned from sale of products were uniform during the three years.

13) Impact of Bank finance on production of small scale industries:

Bank finance has always been effective for the increase in production, for the increase in sales and thereby for the increase in income.

14) Repayment of Loans taken (as per terms):

Loan taken from Assam Financial Corporation has been returned. No further loans were taken after that.

Questionnaire for Sample Industries :Industry No.IV :

1. Name : Ferrodyne Engineering(Manufacturer of Postikar Products).
2. Location : Works, 30(West)Industrial Estate Bamunimaidan,
781021.
3. When started : In April 1987, the shed was organised and in
September 1987, production was started.
4. Nature of products :

Ready-to-eat energy food is produced which is nutritious food for children and others. Name of the products are Postikar and Postik-Jalpan.

5. Total Output During Last Three years :

From September 1987 to September 1988, 100 tons of only Postikar was produced. Production of Postik- Jalpan started only in October 1988.

6. Financial Assistance received from different sources at the initial stages :

- a) Own finance used - Rs. 80,000 (which is about 30% of the whole finance)
- b) Finance taken from banks - Rs. 2½ lakhs (which is about
70% of the whole finance) .
- c) Finance taken from Relatives - Nil
- d) Any other source - No

7. Name of the Bank and Particular Branch :

State Bank of India (New Guwahati Branch).

8. Amount received since the inception:a) Fixed Capital

<u>Year</u>	<u>Amount Received</u>
-------------	------------------------

August 1987	Rs. one lakh
-------------	--------------

b) Working capital

<u>Year</u>	<u>Amount Received</u>
-------------	------------------------

August 1987	Total Rs. 2½ lakhs (State Bank of India)
-------------	--

	Term loan	Cash credit
Out of which	42963.16	118000/- (Stock) 139000/- (Bill)

9. Terms of the Loan :

- 1) Fixed Capital at 13.5% interest payable quarterly (after 8 months).
- 2) Term Loan to be repaid in 16 monthly instalment after 8 months of the receipt of the loan.
- 3) Interest of all loans to be charged at quarterly intervals.
- 4) Working capital at 16.25% interest and to be recovered by bank on demand, but received annually.

10. Difficulties experienced in getting loans by the industrial Units :a) Loans whether timely received or not -b) Whether procedural difficulties were faced -c) Other difficulties faced :

No difficulties
faced at
present.

Initially negotiations were made with Indian Overseas Bank Guwahati whose registered office is located at Calcutta, but this bank ^{took} ~~more~~ than six months to say 'no'. Hence negotiations was initiated with the State Bank of India (New Guwahati Branch) where the financial arrangement was finalised within 8 weeks.

Comment : The attitude of Indian Overseas Bank (Guwahati / Calcutta) certainly not positive towards small scale industrial units.

11. Nature of utilisation of borrowed money :

The financial aid taken from banks was used for the purchase of machinery, and raw materials and the payment of wages.

12. Income expenditure :(Sales and Profits) :

Expenditure on raw materials have increased due to rise in food grain prices (pulses etc) as such the margin of profit has gone down considerably. The item Postikar is exclusively supplied to the State Government for their nutritional programme under Social Welfare and Panchayat department but the payments usually do not come on time which compel to increase borrowed capital and accordingly interest amount goes up.

13. Impact of Bank finance on production of small scale industries:

No adverse effect has been ^{faced} ~~been~~ / as the money required so far has been received in time.

14. Repayment of Loans taken (as per terms):

The first instalment of Term Loan has been already paid back. Interest on term loan and working capital are paid regularly. The total amount paid against term loan was an amount of Rs.3,12970 and amount paid against working capital was Rs. 23,221.94.

Qestionnaire for sample industries

Industry No.V :

1. Name : Nilgiri Enterprises.
2. Location : Industrial Estate By Lane No.5 Bamunimaidan
Guwahati - 21.
3. When started : 1964
4. Nature of Products : Furniture
5. Total Output During Last Three Years :

<u>Year</u>	<u>Value</u>
1985-86	12 lakhs
1986-87	14 lakhs
1987-88	16 Lakhs

The above table shows the value of furniture production by Nilgiri enterprises during the years 1985-86, 1986-87 and 1987-88 the value of which has increase gradually by 2 Lakhs ie, 12 Lakhs, 14 lakhs and 16 lakhs respectively.

6. Financial Assistance received from different sources at the initial stages :

- a) Own finance used - Rs. 1 lakh.
- b) Finance from Banks - 80,000 (In 1987)
- c) Finance taken from relatives - Nil
- d) Any other source - no

7. Name of the Bank and Particular Branch :

State Bank of India (New Guwahati Branch Bamunimaidan)

8. Amount received since the inception :

a) Fixed capital

<u>Year</u>	<u>Amount Received</u>
1981	1 Lakhs (Cash was managed by own self)

b) Working Capital :

<u>Year</u>	<u>Amount Received</u>
1987	80,000 (Cash Credit)

9. Terms of the Loan :

Cash Credit 80,000 (against stock)

10. Difficulties experienced in getting loans by the industrial Units :

- a) Loans whether timely received or not - Loans were timely received
- b) Whether Procedural difficulties were faced -None
- c) Other difficulties faced -No difficulty was faced in getting finance.

11 . Nature of utilisation of borrowed money:

For production purpose.

12. Income expenditure : (Sales and Profits)

Expenditure differs from year to year depending on orders made and production undertaken .Expenditure is roughly 10,000 yearly .Sales and Profits also vary from year to year.

13. Impact of Bank finance on production of small scale industries:

More raw material provision can be made for more production.

14. Repayment of Loans taken (as per terms):

Loan taken has not been repayed as yet, it will be repaid as per procedure of cash credit.

Questionnaire : for Sample Industries

Industry No.VI

1. Name : Pheros & Co. (Assam Pvt. Ltd.) This new name was give in 1975.
2. Location : Industrial Estate By Lane No.1 ,Bamunimaidan
Guwahati-21.
3. When started : 1958 (Was known as Pheros & Co) Pvt.Ltd.
4. Nature of products :
All kinds of Galvanised wire and wire products(100 varities of wire products)and Steel and Iron products.

5. Total Output During Last Three Years :

<u>Year</u>	<u>Raw Materials</u>	<u>Value</u>
1985	2900 my	1,45,00,000.00
1986	2985 my	1,49,25,000.00
1987	3000 my	1,50,00,000.00

The above table reveals the raw materials used and value of production of Pheoros & Co (Assam Pvt. Ltd.) in the year 1985, 1986 and 1987. Both the New materials used and the value of production has increased gradually from 1985, to 1986 ~~to 1986~~ to 1987 in a upward trend.

6. Financial Assistance received from different resources at the initial stages:

- a) Own finance used - Rs. 10 lakhs.
- b) Finance taken from Banks - Rs.5 lakhs
- c) Finance taken from relatives- Nil
- d) Any other source - No

7. Name of the Bank and Particular Board :

- 1) Dena Bank (Opposite MMC Hospital Banbazar)
- 2) State Bank of India (New Guwahati Branch Bamunimaidan)

8. Amount received since the inception:

a) Fixed Capital

<u>Year</u>	<u>Amount Received</u>
1975-76	Rs.5 lakhs

b) Working CapitalYearAmount Received

Rs. 9 lakhs

9. Terms of Loan :

In 1975-76 loan of Rs.5 lakhs was sanctioned at the rate of interest of 16½ % per annum. (Bill purchased and Supply bill) Term loan of Rs. 9 lakhs was sanctioned for meeting working capital needs .

10. Difficulties experienced in getting loans by the industrial units :

- a) Loans whether timely received or not-There is sometimes delay in sanction of required credit.
- b) Whether procedural difficulties were faced - Not much
- c) Other difficulties faced - Insufficient working capital loans is given by banks.

11. Nature of Utilisation of borrowed money :

For raw material purchase and the payment of wages.

12. Income expenditure :(Sales and Profits) :

<u>Year</u>	<u>Sales</u>	<u>Profits</u>
1985	1,45,00,000.00	12%
1986	1,49,25,000.00	14%
1987	1,50,00,000.00	15%

The above table shows the Sales and Profits made by Pheres & Co (Assam Pvt. Ltd.). During 1985, 1986 , 1987 both sales and

profits made an upward rising trend respectively, the rise being 12%, then an increase of 2% profit and a further increase of 1% profit.

13. Impact of Bank finance on production of small scale industries :

Bank finance has always been effective on small scale industries, specially for meeting the working capital needs and for increase in production.

14. Repayment of Loans taken(as per terms):

Bill Purchased and Supply bill repayed. There is no outstanding of present. Term Loan is to be repaid to Dena Bank Outstanding amount with Dena Bank was Rs.9 lakhs (interest + limits sanctioned) at 16½ % rate of interest. There is a pledge of Rs.2½ Lakhs. A suit has been filed by Dena Bank (around 2 years) for the realisation of the amount.

Questionnaire for Sample Industries :

Industry No.VII :

1. Name: Modern Metal Moulders (Assam) Ltd.
2. Location : Industrial Estate Bamunimaidan Guwahati-21.
3. When started : 1962
4. Nature of Products : Castings and Machines (Job work).
5. Total Output During Last Three Years :

Year	Output Quantity	Cast-Iron Steel and Chisel	Value
	Non-ferrous casting		

1985	3523 kgs.	5609 Kg.	3008 Nos.	Rs.9.47
1986	5032 kgs.	6020 kg.	2072 Nos.	Rs.9.93
1987	4268 kgs.	5076 kg.	2579 Nos.	Rs.10.16

The above table reveals the production undertaken and its value in the year 1985, 1986 and 1987 of Modern Metal Moulders (Assam) Ltd. The value of different items produced was the highest in 1987, declining slightly in the year 1986 and further declining slightly in the year 1985.

6. Financial Assistance received from different sources at the initial stages :

- a) Own finance used - Rs. 2.61 Lakhs
- b) Finance taken from Banks- Rs.3 lakhs approximate.
- c) Finance taken from relatives -Nil
- d) Any other source :- Assam Financial Corporation and other sources.

7. Name of the Bank and Particular Branch:

United Co-operative Bank (Fancy Bazar)

8. Amount received since the inception :

a) Fixed Capital

<u>Year</u>	<u>Amount Received</u>
1977	Rs.1.88 lacs from Assam Financial Corporation.

b) Working Capital

<u>Year</u>	<u>Amount Received</u>
	From Bank.... Rs.3 Lakhs
	From Others...Rs.1 lakh.

9) Terms of the loan :

Loan was taken for the purchase of machinery from Assam Financial Corporation and Term Loan and Cash Credit was taken from United Commercial Bank Fancy Bazar.

10. Difficulties experienced in getting loans by the industrial Units :a) Loans Whether timely received or not -b) Whether procedural difficulties were faced-c) Other difficulties -

No difficulty was faced.

11. Nature of utilisations of borrowed money :

1) Loan taken from A.F.C. was used for the purpose of purchase of machinery.

2) Loan taken from U.C.O. Bank was used for meeting working capital needs.

12. Income expenditure :(Sales and Profits)

<u>Year</u>	<u>Sales</u>	<u>Profits</u>
1985	Rs. 12.59	Rs. 8655/-
1986	Rs. 12.09	Rs. 7679/-
1987	Rs. 14.39	Loss Rs. 15779.

The above table shows the sales and profits made by Modern Metal Moulders (Assam) Ltd. The sale was the highest in 1987, but in spite of that it did not earn any profits but was faced with loss. The highest amount of sales and profits was in the year 1985 followed by in the year 1986.

13. Impact of Bank finance on production of small scale Industries:

There has been an increase in production due to financial aid from banks.

14. Repayment of Loans taken (as per terms):

Term loan has been paid except for machines an amount of Rs. 30000/- has to be paid. Working capital loan is in continuous process. It is paid and got back within the limits sanctioned.

Questionnaire for Sample Industries

Industry No. VIII :

1. Name : Rika Engineering Products.
2. Location : Industrial Estate By Lane No. 5, Bamunimaidan
Guwahati - 21.
3. When started : 1974 (at Ulubari Guwahati). It was shifted
to Industrial Estate in 1979.

4. Nature of Products :

Fabrication ,Electrical control panel boards, Steel furniture, other fabrication and engineering works.

5. Total Output During last three years :

Production strated in the year 1988.

<u>Items</u>	<u>Quantity</u>	<u>Value</u>
1) Steel Trolley	10 Nos.	10,870
2) Street light pole	37 Nos.	43,660
3) Panel Board(main product)	53 Nos.	2,52,404
4) Electrical Wall Boxes	346 Nos	10,389
5) Fuel tank	19 Nos	6,080
6) Base Plate for generating set	19 Nos	23,750
7) Fuel tank stand	19 Nos	3,230
8) Miscellaneous job works	-	25,000
9) Steel funniture	3 Nos	7,000
<hr/> Total		<hr/> 3,82,383 <hr/>

The above table reveals the different items, the quantity and value of products produced by Rika Engineering Products during the year 1988. The total production of all items was of the value Rs.3,82,383.

6. Financial Assistance received from different sources at the initial stages :

- a) Own finance used - To a certain extent.
- b) Finance from Banks- Rs. 28,500 (was received from United Bank of India in 1974) Rs. 2,55,000 (was received from U.B.I. in the year 1987).
- c) Finance taken from relatives - Rs. 8,000.
- d) Any other source - Assam small Industries Development Corporation.

- (1) Term Loan for machinery as 1 lakh.
- (2) Seed Money Rs. 19,500
- (3) Marketing Assistance Rs. 68,000.
- (4) Entrepreneurs' Motivation Training Seed Money Rs. 3,200.

7. Name of the Bank and Particular Branch :

United Bank of India (Guwahati Branch Panbazar).

8. Amount received since the inception :

a) Fixed Capital :

<u>Year</u>	<u>Amount Received</u>
1974, 1979, 1988 (for three times)	1 Lakh (from ASIDC)

b) Working Capital :

<u>Year</u>	<u>Amount Received</u>
1974	28,500 (from U.B.I.)
1987	2,55,000 (from U.B.I.)
	68,000 (Marketing Assistance from ASIDC)

9. Terms of the Loan :

- 1) In 1974, United Bank of India gave an amount of Rs.28,500 as working capital at an interest rate of 14%.
- 2) In 1974, 1979 and 1988 an amount of as 1 lakh each was given for three times by Assam Small Industries Development Corporation.

This unit was declared as a sick unit by Government of Assam in 2nd December 1986, after which refinance has been given by United Bank of India and Assam Small Industries Development Corporation.

10. Difficulties experienced in getting loans by the industrial Units :

- a) Loans whether timely received or not- Loans were not timely received.
- b) Whether procedural difficulties were faced - Loans are given on personal guarantee, so after this industrial unit was declared sick to get further loans security guarantee was asked for by the banker from where loan was taken.
- c) Other difficulties faced - Loans given are not adequate.

11. Nature of Utilisation of borrowed money :

Loans taken from bank were mainly used for production purposes.

12. Income expenditure : (Sales and Profits) :

From sale of products-10 to 15 % profit Margin was made. This unit is a special case of a small scale industrial unit which has been initially unsuccessful and was declared a sick unit by Government of Assam. In 2nd December 1986. But after getting refinance from . United Bank of India (Panbazar) and Assam Small Industries Development Corporation , it has started production in 1988 and has become successful in the first year of production with a profit margin of 10 to 15% from the sale of different products produced by the industrial unit So this small scale industrial unit can now be called a successful industrial unit.

13. Impact of Bank finance on production of small scale industries :

There has always been an increase in production, so impact of bank finance on production is positive.

14. Repayment of Loans taken (as per terms) :

Cash credit loan taken, repayment of which is done as per procedure of cash credit limit.

Under Rehabilitation Scheme on 27.10.87 an amount of Rs. 2,55,000 was given by the United Bank of India (Guwahati General Panbazar) This has been done according to norms of the Reserve Bank of India, as it is centrally sponsored . The

loan is bifurcated into three accounts namely:

- 1) Frozen Account of 88,000 which is non interest bearing
- 2) Working capital of 17,000(Term Loan) with 10% interest
- 3) Cash Credit of 1,50,000 with 15 % interest.

This industrial unit is a defaulter .Suit has been filed by the Bank to realise the amount given as loan. In December 1986, United Bank of India got a decree from the court that the amount of 1,50,000 (Cash Credit). will be released on and when required against first class work orders.

- 1) From Frozen Account of Rs.88,000 an amount of Rs.14,500 has been repaid.
- 2) Others no repayment has been made as yet.

Questionnaire for Sample Industries

Unsuccessful Industries

Industry No. IX :

1. Name : Sasi Ayurvedic Bhawan.
2. Location: Industrial Development Area. Bamunimaidan
3. When started : 1972.
4. Nature of Products :

Patent and non Patent Ayurvedic Products (200 quality types of medicines).

5. Total output During last three years:

<u>Year</u>	<u>Value</u>
1985-86	General trade
1986-87	9 Lakhs
1987-88	14 Lakhs

Till current year total production worth was Rs.40 lakhs
 The above table shows the year of production and the value of
 medicine produced by Sasi Ayurvedic Bhawan. Value of production
 has shown an upward trend of increase from Rs. 9 lakhs value
 in 1986-87 to an increase by 5 lakhs in the year 1987-88.

6. Financial Assistance received from different sources at the
initial stages :

- a) Own finance used- Rs. 75,000
- b) Finance taken from Banks - Rs.5 lakhs (Bill Purchase which is
continuing)
- c) Finance taken from Relatives - nil
- d) Any other source - No

7. Name of the Bank and Particular Branch:

Industrial Co-operative Bank (Noonmati Branch)

8. Amount received since the inception:a) Fixed Capital

Year

Amount Received

b) Working Capital

Year

Rs. 5.75 lakhs
Amount Received

Received Rs.5.75 lakhs once both for fixed and working capital .

9. Terms of the Loan :

With 18% interest per annum, Security given (fixed Deposit National Saving Certificate) and Personal Guarantee given by Mr Jadav Bhuyan., the President of Assam Entrepreneurs Association who is also an industrialist.

10. Difficulties experienced in getting loans by the industrial units :

- | | |
|--|-------------------------------|
| a) <u>Loans whether timely received or not</u> | } No difficulties were faced. |
| b) <u>Whether procedural difficulties were faced</u> | |
| c) <u>Other difficulties faced.</u> | |

11. Nature of Utilisation of borrowed money :

Loans taken has been used for production, the purchase of raw materials and the Payment of wages.

12. Income Expenditure :(Sales and Profits) ;

Intially and for some time after that there was loss. It was then identified as a sick unit by Government of Assam in the year 1981. Recently 10% profit margin has been received.

13. Impact of Bank Finance on Production of Small scale industries :

By the help of bank loan production has been increased . Its effect on working capital provision is more.

14. Repayment of Loans taken (as per terms):

Against bill repayment is done. Limit of Rs.5 lakhs is yet to be repaid.

Questionnaire for Sample Industries :

Industry No. X

1. Name : Purbanchal Chemicals Pvt. Ltd.
2. Location: 36, Industrial Estate Bamunimaidan.
3. When started : 1973
4. Nature of Products : Chemicals-Wax Emulsion
5. Total Output During last Three Years :

<u>Year</u>	<u>Quantity</u>	<u>Value</u>
1985-86	247 Metric tonnes	13,50,058
1986-87	168 Metric tonnes	11,28,357
1987-88	476 Metric tonnes	31,82,061

The above table shows the year, Quantity and value of production of Purbanchal Chemicals Pvt. Ltd. The table reveals a gradual increase in production and value followed

by a decline in both and then a rapid increase in both again.

6. Financial Assistance received from different sources at the initial stages :

- a) Own finance used - Rs. 1.5 lakhs.
- b) Finance taken from Banks - An amount of Rs. 4 lakhs in the year 1972.
- c) Finance taken from relative - NFI
- d) Any other source - None

7. Name of the Bank and Particular Branch :

State Bank of India. (New Guwahati Branch, Bamunimaidan)

8. Amount received since the inception:

a) Fixed Capital :

<u>Year</u>	<u>Amount</u>
March 1973	1,32,000

b) Working Capital :

<u>Year</u>	<u>Amount</u>	
August 1981	Term Loan	Cash credit
	210012.56	4,85,000/- (Hypo)
		5,92,000/- (Bills)

9. Terms of the Loan :

Term Loan is repayable in 32 instalments.

10. Difficulties experienced in getting loans by the industrial units :

- a) Loans whether timely received or not-
 b) Whether procedural difficulties were faced-
 c) Other difficulties faced
- Sanctions were delayed initially but no difficulties is faced now at present.

11. Nature of Utilisation of borrowed money :

Loans borrowed has been used for production and payment of wages.

12. Income expenditure :(Sales and Profits) :

<u>Year</u>	<u>Sales</u>	<u>Profits</u>
1985-86		1,41,000 (Loss)
1986-87		2,73,000 (Loss)
1987-88		Yet to be ascertained.

The above table shows the poor performance of Purbanchal Chemicals Pvt Ltd. industrial unit , which has faced loss both in 1985-86 and 1986-87. The results of production in the year 1987-88 is not known as the result was not yet ascertained when this survey work was done in October 1988.

13. Impact of Bank finance on production of small scale industries :

The impact of bank finance has been positive, as the turnover in production showed an upward rising trend.

14. Repayment of Loans taken :(as per terms):

Cash credit loan taken has been repaid as per procedure of cash credit limit.

CHAPTER -5

Conclusion and Suggestions

The above study has been based on personal interview with the Divisional Officer United Commercial Bank, the lead Bank of Kamrup district and his colleagues, President of Assam Entrepreneur's Association, various industrialists and owners of small scale industrial units, Director of District Industries Centre (DIC) and data collected from North Eastern Institute of Bank Management (NEIBM) ; Assam Small Industries Development Corporation (ASIDC), Assam Financial Corporation(AFC), National Small Industries Extension Training Institute (NSIET) and its colleagues and the various commercial banks extending credit to small scale units included in the survey work.

It is a pity that Directorate of Industries and the units themselves do not keep adequate records of their production and progress. The industrial units have a mass of undifferentiated data due to lack of correct tabulation and records which have to be looked into to get the required material . The conclusions emerging from this study are as follows : Local people of Kamrup have lukewarm interest in setting up industries. Industries department has to do much by way of training and incentives to motivate

young local people for small scale units based on locally available raw materials. District Industries Centre should be able to give all assistance and financial help at a single point basis.

Kamrup and other districts of Assam are far behind the developed regions in balancing their economic disparity which has been increasing on account of rapid growth rate of population and limited arable land which has brought in discomfort to society. There could be no other alternative for the educated youths except to take to industrial activities. The region is a paradise for the outside manufacturers to sell their products. This situation can be changed only if a long term policy with sustained effort is pursued to bring in credibility to the local products.

A new Industrial policy has been announced by the Government with fiscal reliefs and package of incentives. The success of it depends on how far it can be implemented to achieve the various objectives set by it.

The flow of institutional finance is inadequate and the banking norms, stipulation and release of money suffer from constraints. Recently some surveys and feed back information system was introduced to appropriately brief the nationalised banks, scheduled commercial banks and co-operative banks to follow the guidelines of the Reserve Bank of India.

The credit facilities in the State contrary to propogations made by the banking sector is inadequate. The lions share of deposits is deployed outside the state. The current credit deposit ratio is around 47% of the total deposits, so some mechanism has to be devised for ploughing back the deposits to productive sector within the state.

The much publicised "Liberal finance" incentive for backward area like the region could not create much spurt in the growth of industries. This has been for the rigid disbursement procedure followed by banks. Credit is security Oriented, inadequate and never in time at the backdrop of so named liberal and easy finance.

In the light of the above mentioned conclusions it may be suggested that :

- 1) Bank assistance should be need based and timely.
- 2) The gap between credit requirement and channelisation has to be bridged.
- 3) Bank assistance should be given on easy terms. The loan assistance should not be tight security oriented.
- 4) The existing communication gap between the entrepreneur and the bank should be bridged.
- 5) Capital is less in Kamrup district. So debt-equity ratio should be relaxed from the existing pattern to 3:1 with no

margin or lowering of margin and if possible without insisting on collateral securities rigidly.

- 6) There should be productive co-ordination between banks and other financial institutions like State Financial Corporation.
- 7) To obviate delays in the sanction of requisite credit facilities the Branch Manager should be delegated more discretionary power to enable them to sanction credit facilities to the industrial unit within maximum period of 30 days of the application depending on the merit of the case.
- 8) It is generally found that working capital level is slashed to the discretion of Branch Officials without taking into account the requirement of the unit as per project report. Field Officers and other officers of the Bank dealing with industrial financing should have thorough knowledge of industries and its capital requirement norms.
- 9) There is a need for a positive change in the outlook and approach of our financial institutions towards small scale enterprises. The credit-worthiness should not be judged in terms of the realisable value of the assets but in terms of the ability of an enterprise to do the job and earn profit. A system of integrated credit is required to be evolved so that long-term capital and short-term credit are provided adequately, at a reasonable rate of interest.

- 10) Present trend of financing by the Banks to the industrial units should be liberalised to ensure rapid establishment, of the units.
- 11) Infrastructural facilities to the industries are not sufficient. The constraints and many a handicaps faced by the units are needed to be removed and the basic requirements are to be provided.
- 12) Marketing assistance is to be assured so that the unit may enjoy a good market of their own products and the turn over be made available at the earliest. Proper advertisement of products produced should be taken up to increase the sales.
- 13) Training programme for new entrepreneurs and the officers should be made available in more decisive fields.
- 14) Introduction of modern technology is required for uniform quality of products, fast and more production.
- 15) Growth centres should be activated for setting up viable industries and for industrial development.
- 16) Lastly library facilities are required in the District Industry Centre, Kamrup so that entrepreneurs and officials can make themselves more acquainted with new ideas and infrastructures.

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APPENDIX 1 (TO CHAPTER-IV)

The pattern of the questionnaire adopted for the survey work of sample industries is as follows :

Questionnaire for Sample Industries :Industry No.

- 1) Name :
- 2) Location:
- 3) When started:
- 4) Nature of products :
- 5) Total Output During Last Three Years:
- 6) Fianncial Assistance received from different, sources
at the initial stages :
 - a) Own finance, used-
 - b) Finance taken from Banks-
 - c) Finance taken from relatives-
 - d) Any other source-
- 7) Name of the Bank and Particular Branch :
- 8) Amount received since the inception:
 - a) Fixed Capital

<u>Year</u>	<u>Amount Received</u>
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 - b) Working Capital

<u>Year</u>	<u>Amount Received</u>
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- 9) Terms of the loan :